# 2020
## ANNUAL REPORT


GINEBRA SAN MIGUEL
SINCE 1834

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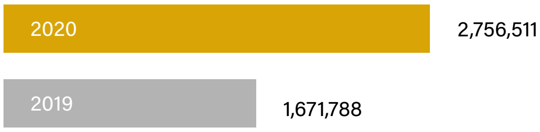
# Financial Highlights

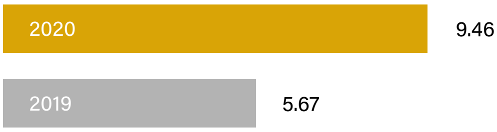
In Thousand Pesos, except Per Share Data

## Net Revenue


## Net Income

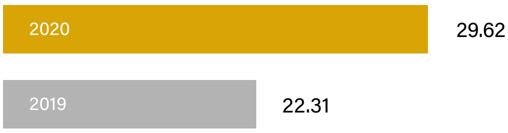



## Basic Earnings Per Share




## Stockholders' Equity


## Stockholders' Equity Per Share*




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

# Message to Stockholders

As most businesses struggled to cope with the crippling effects of the global COVID-19 pandemic, your company, Ginebra San Miguel, against all odds delivered record results in 2020: Net income of ₱2.76 billion, 65% higher than the previous year, representing our highest profit level to date.

This is not to say that the challenges presented by the pandemic year were easy to navigate—far from it. Quarantine restrictions resulted in severe limitations to the transport of people and goods, and the closure of many businesses. The Enhanced Community Quarantine (ECQ) forced us to temporarily halt all our liquor operations while the selling of our products had to be suspended whenever liquor bans were implemented in our major markets nationwide.

We recognized then that we had to adapt and quickly evolve our operations in order to get ahead of rapidly changing business conditions, once our operations resumed.

In hindsight, our success last year can be attributed to two critical factors: the enduring strength of our brands, and the resilience of our people and organization.

Our continuous efforts to invest in strengthening Ginebra San Miguel's brand equity, and build deeper connections with consumers, carried us through these uncertain times. We recast our festive "One Ginebra Nation" campaign into one that resonated with Filipinos in this time of crisis, delivering a message of hope, unity, resilience, and strength in the face of adversity. Across the nation, we carried the same message and backed it with concrete, positive action to cushion the blow of a crisis that has gripped the world.

We reconfigured our operations to produce disinfectant alcohol to be distributed for free to hospitals and other critical facilities. By the end of the year, we had delivered a total of 1.3 million liters of alcohol to almost 3,700 entities nationwide. In doing so, we not only kept brand Ginebra San Miguel relevant; we became a meaningful part of the national effort to address the pandemic.

Setting aside our business operations and channeling all our efforts and resources towards the fight against COVID-19 brought new purpose to our company. Our experience helping frontliners all over the country inspired our "Tapang na Tunay" digital campaign, which centered on themes of strength and unity. We released a limited edition Frasco label, to pay tribute to our health care

Our continuous efforts to invest in strengthening Ginebra San Miguel's brand equity, and build deeper connections with consumers, carried us through these uncertain times.

workers. We also recognized COVID-19 heroes at our annual Ginebra Ako Awards.

Our other major brands, Vino Kulafu and GSM Blue Flavors, also banked on their strong affinity with consumers that was built over time. Recent thematic campaigns for these brands also delivered messaging that resonated well with their core drinkers, enabling them to sustain volume growth of 5% and 12%, respectively.

All in all, our total volumes for 2020 reached 38.6 million cases, 8% better than the previous year, and the highest we've recorded in the last decade.

Complementing our strategy of leverage on the strength of our brands, was a well-coordinated quick return to trade, upon the easing of ECQ and implementation of General Community Quarantine (GCQ). We also made our products more accessible to more consumers with deliberate efforts to expand our distribution coverage in high-potential areas, even as restriction measures varied across the country.

As a result, we were able to deliver our best performance to date. We registered consolidated revenues of ₱36.2 billion and operating income of ₱3.8 billion, 25% and 32% higher, respectively, while EBITDA was 38% higher at ₱4.9 billion.

While uncertainties remain, we have placed ourselves in a good position to capture a larger share of the market. Our primary business goals remain: To sustain and keep our brands relevant to consumers, push distribution further to increase our sales volume, and maintain operational efficiencies across the entire supply chain to protect our profitability.

We are optimistic—not just because of the strategies and programs we have put in place for 2021—but because of all that we experienced and learned in 2020. Toughened by the challenges we faced and continue to face today—both as a company, and as individuals—we are even more determined to do our part in supporting our pandemic-stricken economy.

Our latest thematic campaign for Ginebra San Miguel, "Bagong Tapang," draws inspiration from our collective experience as a nation. It celebrates the Filipino's inner strength and courage. It is also a hopeful reminder that many times, a simple shift in perspective can reveal opportunities for positive outcomes, no matter how difficult the situation.

As we write this, our country is battling a renewed surge in infections, including those of the new and more transmissible variants. This has further delayed the reopening of our economy, but we intend to seize any opportunity we can to build on our growth. Guided by the value of "malasakit" that our parent, San Miguel Corporation, continues to foster across the San Miguel Group, we will continue to work with a deep sense of purpose, fully aware of our role in helping our company uplift Filipinos in this time of crisis.

May Bagong Tapang sa One Ginebra Nation.

**Ramon S. Ang**
President

**Emmanuel B. Macalalag**
General Manager

# Rising to a New Kind of Courage

The COVID-19 pandemic may have required us to be physically apart for our safety, but it also taught us the importance of staying close to our consumers. Adapting quickly to changes was key.

The pandemic abruptly transformed our way of life and posed numerous challenges on how we market our brands, but it also offered enormous opportunities to reinvent and to come up with new ways to reach out and connect. We made sure that our brand, Ginebra San Miguel, was there at a time when Filipinos were in dire need of encouragement, hope, and inspiration.

As expressed in our new marketing campaign, having "Bagong Tapang" or a new kind of courage doesn't mean we have to face these challenges alone. Ginebra San Miguel is one with the Filipinos in this fight.

> 'Bagong Hamon, Bagong Tapang' is rising to the challenge of starting anew to survive, to provide for the family, and to serve others.

*Ginebra San Miguel's brand equity has always been anchored on Filipino values and ideals. In its marketing campaigns, Ginebra San Miguel highlights the everyday Filipino's courage, heroism, and never-say-die spirit.*


## BAGONG HAMON, BAGONG TAPANG

As a distinctly Filipino brand of 187 years, Ginebra San Miguel has always represented the values that are important to our consumers—"tapang" (courage), "lumalaban" (resilience), and "nagkakaisa" (unity).

Our latest marketing campaign for Ginebra San Miguel, "Bagong Hamon, Bagong Tapang," is inspired by these values that we hold close to our hearts and what our countrymen went through in this pandemic—rising to the challenge of starting anew to survive, to provide for the family, and to serve others. And to succeed in this battle, we have to learn from experiences, face them with a different kind of strength and resilience, and a new kind of courage.

"Bagong Hamon, Bagong Tapang" was launched on January 1, 2021 on TV and several online and digital platforms. The narrative was inspired by real-life situations as Filipinos face the new normal with a new start, a new hope, and a new future that is in their hands to shape.

The ad garnered the highest views and online engagement among Ginebra San Miguel's recent campaigns with more than 32 million combined views from Facebook and YouTube, and over 255,000 engagements and counting.



*The new marketing campaign 'Bagong Hamon, Bagong Tapang' is inspired by real-life stories of Filipinos during the pandemic.*

## SALUTE TO HEROES

The community quarantine due to COVID-19 and subsequently the liquor ban imposed in March last year made us rethink how we can stay connected with our consumers, even during a crisis. We had to be more agile, and come up with interesting ways of engaging consumers in these difficult times. We leveraged our digital assets, put in creative storytelling, and did even more by paying it forward.

At the start of the COVID-19 health crisis and amid a supply shortage of disinfectant alcohol last year, GSMI readily retooled its production plants nationwide to produce 70% ethyl alcohol. San Miguel Ethyl Alcohol was initially distributed for free for use of frontline workers in critical facilities and local government units prior to its official launch. GSMI has since donated 1.3 million liters of ethyl alcohol amounting to ₱100 million to date. By continuing to produce San Miguel Ethyl Alcohol, we are ensuring the public a steady supply of quality rubbing alcohol and keeping our commitment to protect Filipinos.

With the emergence of a new breed of heroes during the pandemic, Ginebra San Miguel came out with a reimagination of its iconic label by National Artist Fernando Amorsolo through a series of social media posts. To pay tribute to the frontliners, the image of St. Michael the Archangel vanquishing the devil was turned into artworks honoring the brave doctors, nurses, security guards, factory workers, couriers, and other essential workers. These artworks were posted on Ginebra San Miguel's Facebook Page and netizens were inspired to react and share.

Ginebra San Miguel responded to the clamor to make these artworks an actual bottle label so a limited edition Kuwatro Kantos bottle was released with the commemorative label featuring the healthcare workers.

The trending Ginebra San Miguel frontliner label was recognized by AD STARS in Busan, South Korea, and earlier this year by the One Club for Creativity in Beijing, China as one of the best creative works in the Asia Pacific for 2020 under the direct-marketing/social media category. Meantime, the Monde Selection International Institute for Quality Selections awarded Ginebra San Miguel its 15th Gold Quality Label, a testament to the product's world-class quality and taste.

While the pandemic put a pause on live concerts and events, this did not stop us from using our platform to support and salute our frontliners through the first-ever

> We leveraged our digital assets, put in creative storytelling, and did even more by paying it forward.


*The Ginebra San Miguel frontliners label tribute is a reimagination of the iconic artwork by National Artist Fernando Amorsolo.*


*The first-ever virtual Ginumanfest is a star-studded online concert aired via the Ginebra San Miguel Facebook page that paid tribute to the heroes of the pandemic.*


*Ginebra San Miguel wins its second consecutive Catholic Mass Media Awards recognition, this time for 'Tapang na Tunay' as 2020 Best Branded Digital Ad.*

Ginumanfest online concert that was aired live via the Ginebra San Miguel Facebook page. The event, that coincided with the celebration of Philippine Independence Day in June, featured three of the Philippines' biggest bands—Banda ni Kleggy, Silent Sanctuary, and December Avenue, GSM Blue brand ambassador Sue Ramirez, Ginebra San Miguel 2020 Calendar Girl Sanya Lopez, Miss Universe Philippines candidates, and the Barangay Ginebra San Miguel Gin Kings.

In July, a follow-up campaign for One Ginebra Nation was launched. Dubbed "Tapang na Tunay," the ad championed the Filipino's resilience, courage, and "malasakit" amid the pandemic. The ad was later on recognized by the Catholic Mass Media Awards (CMMA) as the Best Branded Digital Ad for 2020.

While in October, the "One Ginebra Nation" campaign was recognized as one of the top three best TV advertisements in the first-ever Kantar Creative Effectiveness Awards Philippines, besting some 200 other local TV ads.

Despite the COVID-19 pandemic, Ginebra San Miguel continued with its annual "Ginebra Ako Awards," in a virtual awarding ceremony streamed via Ginebra San Miguel's official Facebook page. The "Ginebra Ako Awards Year 3: Pagkakaisa sa Gitna ng Pandemya" shines the spotlight on COVID heroes in line with the brand's campaign "Bagong Tapang." Ginebra San Miguel saw the need for individuals and organizations to be recognized especially at this time when Filipinos look up to real-life heroes for encouragement and inspiration.

The awardees recognized for their contributions during the COVID-19 pandemic were Martin Xavier Peñaflor, chief executive officer of Tangere for Pilipino Ako Award; Minnie Pascual Klepacz, a nurse based in the United Kingdom and one of the proponents of Black Asian and

*Scan the QR code using your smartphones to watch Ginebra San Miguel's 'Tapang na Tunay' digital ad.*


*The 'Ginebra Ako Awards Year 3: Pagkakaisa sa Gitna ng Pandemya' shines the spotlight on the heroes of the pandemic including Minnie Pascual Klepacz, a nurse based in the United Kingdom.*

Minority Ethnic (BAME) Network and the Filipino Nurses Association United Kingdom (FNA-UK) for Matapang Ako Award; and the Emergency Quarantine Facility project led by Dr. Glenn Angeles and Architect William Ti for Lalaban Ako Award.

As a way of saying thank you for the continued support of its loyal consumers, Ginebra San Miguel held its first-ever interactive virtual game show. "Pamaskong Handog ng Ginebra San Miguel" was streamed live via the brand's official Facebook page with thousands of netizens from all over the country tuning in as they participated in the various trivia games for a chance to win as much as ₱100,000 and a year's supply of GSMI products.


Ginebra San Miguel spreads Christmas cheer to thousands of netizens from all over the country via the interactive virtual game show 'Pamaskong Handog ng Ginebra San Miguel.'

## FROM GINUMAN TO E-NUMAN

Filipinos love to drink with friends and family around. But the restrictions on social activities had people confined at their homes. With a majority of bars and restaurants closed and group gatherings prohibited, people still found ways to connect and celebrate in the virtual space. Technology has made socializing an activity you can do at home.

The new trend called "e-numan" provided the opportunity for people to check on one another, reconnect, and drink together online. GSMI products were made available via San Miguel's online store The Mall and other online selling platforms such as Lazada that can bring Ginebra San Miguel, GSM Blue, or Primera Light Brandy to your doorstep.


GSMI products are now available for purchase via San Miguel's online store The Mall and other online selling platforms.

The "new normal" bonding was also reflected in the campaigns of GSM Blue and Primera Light Brandy. GSM Blue launched an iteration of its "I Choose Mojito Campaign" to strengthen its association with the younger consumers, and at the same time to communicate the other GSM Blue Flavors Gin Pomelo, Margarita, and Light Gin. The ad, likewise, promoted safe bonding by drinking at home. The campaign was a huge success, gaining 16 million views online.


Aside from GSM Blue Flavors Mojito, GSM Blue marketing campaigns featuring actress Sue Ramirez pushes trial for the product's other variants Gin Pomelo, Margarita and Light Gin.

Following the K-Pop trend, Primera Light Brandy launched a new ad featuring actor/singer Matteo Guidicelli and social media sensation Albert Nicolas a.k.a. "Asian Cutie" mimicking K-Pop stars. "Let's Be Honest," another of the brand's trending digital content featured PBA superstars Scottie Thompson, Jio Jalalon, Marc Pingris, Mark Barroca, Jared Dillinger, Joe Devance, and even PBA Legends Alvin Patrimonio and Johnny Abarrientos. This online show scored over 4.5 million views.

Meanwhile, Ginebra San Miguel introduced a fresh face as its Calendar Girl for 2021. Newcomer model and beauty queen Christelle Abello was launched as Ginebra San Miguel 2021 Calendar Girl in a virtual media event. The 2021 edition of the Ginebra San Miguel calendar with the theme "Ganado sa Bahay" was very timely as it captured today's "new normal" at home in different layouts.

Ginebra San Miguel also gave consumers more reasons to enjoy their e-numan sessions with the commercial release of the one-liter Ginebra San Miguel Hari and the first sampling release of 1834, a premium distilled gin that is set to be officially launched in 2021. The name, inspired by the birth year of Ginebra San Miguel and the year Europe and Asia embraced the port of Manila, 1834 is carefully crafted with uniquely Philippine botanicals such as calamansi and sampaguita.

As we begin to discover just what the "new normal" looks like, Ginebra San Miguel will continue to explore more innovative ways to connect and engage with our consumers. Amid this adversity, we are one with the millions of Filipinos in upholding the tradition of celebrating the best of human kindness, courage, resilience, malasakit, and Bayanihan spirit.



*Primera Light Brandy's digital online series 'Let's Be Honest' features Matteo Guidicelli, social media sensation Albert Nicolas a.k.a 'Asian Cutie,' and PBA legends and superstars.*

As we begin to discover just what the "new normal" looks like, Ginebra San Miguel will continue to explore more innovative ways to connect and engage with our consumers.


*Ginebra San Miguel features 2021 Calendar Girl, model and beauty queen Christelle Abello, in different layouts of the 'new normal' at home.*


# Learning Never Stops

## Ginebra San Miguel Bar Academy continues to give hope through education amid the pandemic

The education sector, like most industries, had been on a standstill for several months at the height of the COVID-19 pandemic last year. All, except for the Ginebra San Miguel Bar Academy, a bartending school built through the partnership of Ginebra San Miguel Inc. (GSMI) and the Technical Education and Skills Development Authority (TESDA).

While the rest of the schools and learning institutions were still in the thick of preparations for the big shift to online learning – the provision of infrastructure support and the readiness of its learners and teachers at that time, TESDA and the Ginebra San Miguel Bar Academy were already way ahead, being the first to conduct blended learning during the pandemic in July 2020.

So, amid all the uncertainty, grief and fear gripping many Filipinos, the bartending school of GSMI provided the much-needed hope and security to its scholars through education. More importantly, it gave them the assurance of being one step closer to fulfilling their dreams.

## TEACHING IN THE NEW NORMAL

Bartending Trainer Shella Bawar is one of three instructors from the TESDA Women's Center and from all academic institutions in the country to be given accreditation to teach blended learning. Blended or flexible learning consists of face-to-face and online learning, and distance learning which includes modules for the learners.

After undergoing a training on virtual learning, Shella and her colleagues also became part of the Philippines' roster of regional lead trainers who trained other technical vocational educators in the country on this modality.

Shella, a first-timer in virtual learning, found it challenging at first to teach a practical course like bartending. Apart from the challenges of slow internet connection, she also had to be creative in capturing and sustaining the attention of her learners. Shella would try various methods and explore other teaching platforms, such as Google Classroom and Edmodo, to make learning fun and easy for her students. She would conduct cocktail mixing demonstrations in front of her online learners, introducing to them the drinks and techniques in bartending. She would also give them a virtual tour of the Ginebra Bar Academy's facilities, located at the TESDA Women's Center, from time to time, to get them all excited and primed for the face-to-face classes once situation permits.

Apart from the world-class education from TESDA and the access to state-of-the-art facilities of the Ginebra San Miguel Bar Academy, the scholars also are given ₱5,000 allowance for learning materials, ₱160 daily allowance, ₱500 for personal protective equipment (PPE) and ₱500 internet allowance. The bartending classes usually comprise of 25 learners per batch but given the pandemic situation, only 16 enrolled for the first batch and 21 for the ongoing second batch. The learners, aged 18 to 45, come from different social backgrounds. Among them are students who stopped school due to the pandemic, a delivery frontliner, a young mother and a market vendor.

Classes are held from 7am to 4pm daily with offline and online sessions. Many of the working learners quickly adapted, too, finding ways to attend the classes even while on their jobs and sending in their assignments even with limited access to the internet. With the various challenges posed by the pandemic, Shella gives her students the flexibility to work on their tasks on their free time. Sometimes, she would even teach those who are unfamiliar with the online platforms or Microsoft Word on how to operate it so they could work and submit their output.

"I learned to be more flexible as a teacher. I tried to be more understanding of late submissions and of difficult learners and became more open to other ways of sending their output. Flexibility was extended to them but in delivering the training, we upheld the quality and competency standards of the course," says Shella.

According to this multi-awarded instructor and seasoned bartender, one of the most fulfilling of all her bartending classes since she began teaching is the fact that no one has dropped from it this time, amid the pandemic. In the past, some of her learners dropped out due to various personal reasons. But this time, she adds, all the 16 learners who began the two-and-a-half-month course successfully finished the online classes. All of them are also eager to start their practical lessons at the Ginebra San Miguel Bar Academy once face-to-face classes are allowed. After completion of the course, the learners will already take their National Certification (NC) exam.

## LEARNING IN EXTRAORDINARY TIMES

Among the most determined learners in Shella's classes are Jerrald Manangan and Mary Grace Abainza.

Jerrald, 45, worked as a bar steward for seven years at a cruise ship before he was forced to return home due to epilepsy. When he learned to manage his medical condition, he worked as a hotel staff in Makati until last year before the hotel closed due to the pandemic. Fortunately, he immediately found another job as a Lalamove driver, and during that time, also enrolled as a bartending scholar at TESDA.

TESDA and Ginebra San Miguel Bar Academy were already way ahead, being the first to conduct blended learning during the pandemic in July 2020.

*Located at the TESDA main campus in Taguig City, Ginebra San Miguel Bar Academy offers students world-class education from TESDA and access to its state-of-the-art facilities.*

*The Ginebra San Miguel Bar Academy features a hotel-style dining area complete with modern furniture and fixtures, a fully-stocked liquor bar, a world-class and spacious bar counter, an all-stainless steel back bar workshop, and a flairtending gym.*

Although he has basic knowledge in cocktail mixing and extensive experience as a bartender, Jerrald wanted to further hone his craft and earn his NC to be able to land better jobs.

"While on the road and working, I would stop and listen to the lessons using my phone. But whenever we have scheduled quizzes, I would go home right away so that I could be at my best when I take them. I do not have difficulty balancing work and the online classes; I think it's just a matter of setting priorities and doing what you love. After finishing this course, I would like to take cookery also at TESDA. Right now, I am also applying for a job as a real estate agent. I would love to work again though as a seaman and use my enhanced skills in bartending. For me, as long as I can, I will never stop learning new things and improving myself," shares Jerrald.

Mary Grace Abainza, a mother of twin baby boys, had long dreamt of working abroad to provide a better life for her family. She wasn't able to finish her education due to financial problems but Mary Grace was determined to pursue her dreams no matter the cost. She took on various jobs as a fast-food crew, a factory worker and a call center agent.

After giving birth, Mary Grace enrolled at TESDA upon learning how bartending could help her achieve her dream. She hopes to be like her aunt who now works as a successful bartender at a cruise ship.

"My dream is really to have a profession and to work abroad in a cruise ship, so we can pay all our bills and provide a comfortable life for my family. I feel that this bartending course will give me the profession I've always wanted, it is a stepping stone for me to achieve my dream. That is why I strive to do all my assignments and projects even while taking care of my kids. When the kids are awake and we have classes, I just mute the mic so they will not hear the noise from us. Then, I do my assignments at night or in the wee hours when the kids are asleep. I try my best to comply with all tasks," says Mary Grace.

## ELEVATING BARTENDING EDUCATION IN THE PHILIPPINES

Adding to these world-class education and flexible learning, TESDA instructor Shella believes that the scholars stand a great chance of landing their dream jobs and becoming successful because they are training with the best and are using the industry standard, state-of-the-art equipment and facilities of the Ginebra San Miguel Bar Academy.

> "Whenever we have scheduled quizzes, I would go home right away so that I could be at my best when I take them... For me, as long as I can, I will never stop learning new things and improving myself,"
> - Jerrald Manangan

*Bartending Trainer Shella Bawar is only one of the few instructors from all over the country to be given accreditation to teach blended learning.*

*Ginebra San Miguel Bar Academy students are confined to online classes for now, but Bartending Trainer Shella Bawar also gives them a virtual tour of the school from time to time to get them all excited once face-to-face classes resume.*

The academy is an offshoot of the GSMI Technopreneur Program. Launched in 2014, this first-of-its-kind initiative provided beneficiaries both scholarships and a means of livelihood. The 180 scholars from throughout the Philippines were trained in cocktail mixing, flairtending and basic business skills. Upon graduation, they were given mobile bars for their start-up business. This partnership with TESDA has since become a model for other private companies' own corporate social responsibility efforts.

As part of its continuing thrust to uplift lives through education and livelihood, GSMI also established the Ginebra San Miguel Bar Academy in a bid to elevate the quality of bartending education in the country. Complementing the world-recognized TESDA education are its sophisticated, industry-standard equipment and facilities. Its features include a fully-airconditioned flairtending gym, a world-class and spacious bar counter, a fully-stocked liquor bar, an all-stainless steel back bar workshop and hotel-style dining area complete with modern furniture and fixtures. The flairtending gym with floor-to-ceiling mirrors, high ceiling and rubberized floor, is where scholars can develop their showmanship skills.

"The Ginebra Bar Academy is the best showcase of classic bartending that we have so far in the Philippines. The hotel ambiance as well as complete equipment, tools and materials give our scholars the advantage among other students. With such an industry experience already being offered during training, the scholars would be able to confidently work and quickly adapt when they start working in the industry. The Academy also gives importance to the profession of bartenders and their big role in the food and hospitality industries. We are grateful to Ginebra San Miguel Inc. for the support and partnership that continue to give hope to our scholars," Shella concludes.


*Apart from cocktail mixing and flairtending, the Ginebra San Miguel Bar Academy also equips students with basic entrepreneurial skills.*


# Portfolio of Liquor Products

GSMI takes pride in producing world-class and memorable brands for the Philippine liquor market, including Ginebra San Miguel, GSM Blue, Vino Kulafu, Primera Light Brandy and Añejo Gold Rum. Many of these products have gained recognition for their quality and taste, reaping awards and accolades from institutions around the world. We continue to evolve as a diverse and progressive company, bringing the rich heritage of our flagship brand into the future.


**Ginebra San Miguel**
Round 350 mL
Frasquito 350 mL
Angelito 250 mL
Frasco 700 mL
Hari 1 L

**1834**
750 mL


FROM THE PEARL OF THE ORIENT SEAS
1834
PREMIUM DISTILLED
GIN
PHILIPPINE BOTANICALS
CALAMANSI, ORANGE PEEL, LEMON PEEL & SAMPAGUITA
PRODUCT OF THE PHILIPPINES
40% ALC. BY VOL.
750 ML


**Ginebra San Miguel Premium Gin**
750 mL


**G.S.M. Blue Flavors Gin Pomelo**
**G.S.M. Blue Light Gin**
**G.S.M. Blue Flavors Mojito**
**G.S.M. Blue Flavors Margarita**
Solo 350 mL
Long Neck 700 mL


**Vino Kulafu**
Long Neck 700 mL
Classic 350 mL


**Primera Light Brandy**
750 mL


**Añejo Gold Rum**
Solo 350 mL
Long Neck 700 mL


**Don Enrique Mixkila**
700 mL

**Antonov Vodka**
700 mL


**Tondeña Manila Rum (for export only)**
Silver, Gold, Dark 750 mL

# Board of Directors

**Ramon S. Ang**
President

**Francisco S. Alejo III**

**Leo S. Alvez**

**Aurora T. Calderon**

**Gabriel S. Claudio**

**Mario K. Surio**

**Francis H. Jardeleza**

**Minita V. Chico-Nazario**
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 an integral component of sound strategic business management. It plays a necessary and vital role in the attainment of corporate goals and creates the sustenance and improvement of shareholder value.

On August 6, 2002, the Company, through its Board, institutionalized the principles of good corporate governance in the entire organization through the establishment and implementation of the Company's Manual on Corporate Governance (the "CG Manual"). Since its adoption, the CG Manual has undergone several amendments for the purpose of aligning 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, which took effect on January 1, 2017. Conformably with the Circular, the Company formally approved and adopted an amended CG Manual on May 25, 2017.

## BOARD OF DIRECTORS

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

The Company is headed by a competent Board, which through the combined knowledge, expertise and experience of its members, has enabled the Company to sustain its competitiveness and profitability in a manner that is 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 conflicts of interest are avoided.

During the 2020 RSM that was held on June 23, 2020, the stockholders elected five (5) male and three (3) female directors. Another male director was elected during the August 5, 2020 Board of Directors meeting in lieu of Eduardo M. Cojuangco, Jr. who passed away on June 16, 2020. Currently, there are six (6) male and three (3) female directors. Ramon Ang was elected President, and in accordance with the By-Laws of the Company presides over the meetings of the Board of Directors in the absence of a Chairman and Vice Chairman, while Directors Aurora S. Lagman and Minita V. Chico-Nazario are the elected Independent Directors, with the latter being elected as the Lead Independent Director of the Company. Directors Francisco S. Alejo III, Aurora T. Calderon, Leo S. Alvez, Gabriel S. Claudio, Francis H. Jardeleza 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 by law.

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.

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 are 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 2020, the Board held four (4) regular meetings, one (1) organizational meeting and one (1) special meeting. The Board members also attended the 2020 RSM, as shown in the table below:

2020 BOARD MEETING ATTENDANCE

| | | June 23, 2020 | | |
|---|---|---|---|---|
| Board of Directors | Designation | REGULAR STOCKHOLDERS MEETING (RSM) | ORGANIZATIONAL MEETING | BOARD MEETING ATTENDANCE |
| Eduardo M. Cojuangco, Jr.* | Chairman and Chief Executive Officer | N/A | N/A | 2/6 |
| 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 |
| Francis H. Jardeleza** | Director | N/A | N/A | 4/6 |
| Minita V. Chico-Nazario | Lead Independent Director | Present | Present | 6/6 |
| Aurora S. Lagman | Independent Director | Present | Present | 6/6 |

* Eduardo M. Cojuangco, Jr. passed away on June 16, 2020.
** Francis H. Jardeleza was elected as Director to replace Eduardo M. Cojuangco, Jr. during the Board of Directors meeting on August 5, 2020.

As for the Board Committee Meetings, details of the attendance of the Directors in the Committee meetings in 2020 are shown below:

2020 BOARD COMMITTEE MEETING ATTENDANCE

| Board of Directors | Audit And Risk Oversight | Corporate Governance |
|---|---|---|
| Eduardo M. Cojuangco, Jr.* | N/A | N/A |
| Ramon S. Ang | Present | Present |
| Francisco S. Alejo III | Present | Present |
| Aurora T. Calderon | Present | Present |
| Leo S. Alvez | Present | Present |
| Gabriel S. Claudio | Present | Present |
| Mario K. Surio | Present | Present |
| Francis H. Jardeleza** | N/A | N/A |
| Minita V. Chico-Nazario | Present | Present |
| Aurora S. Lagman | Present | Present |

*There were no Executive Committee and Executive Compensation Committee Meetings held in 2020.

In 2020, each Director received a per diem of Ten Thousand Pesos (₱10,000.00) 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 2020, all the directors attended a corporate governance seminar conducted by SEC-accredited providers—Risk, Opportunities, Assessment and Management (ROAM), Inc., SGV & Co., KPMG R.G. Manabat & 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 2020. 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 2020. 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 said 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

With the passing of Eduardo M. Cojuangco Jr., the Company's Chairman and CEO, the Company's Management became under the leadership of its President Ramon S. Ang, with the latter being assisted by General Manager Emmanuel B. Macalalag. The Chairman and 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 perform such duties and functions as the Board may assign to him. However, when Eduardo M. Cojuangco, Jr. passed away on June 16, 2020, these functions were performed by the Company's President. The President supervises and directs the day-to-day business affairs of the Company, while the General Manager reports to the President and is charged with overseeing 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, 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 2020 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 June 23, 2020. While KPMG has been the External Auditor of the Company for several years, such reappointment in 2020 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 it 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 ₱8 million in 2020.

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 investor's 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 is 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 (PFRS), 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, 2020 of the Company were approved and authorized for submission and filing with the concerned regulatory bodies by a resolution of the Board on March 10, 2021.

### 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 2020 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 of Directors (the "Board") at such rate or amount and period as may be fixed by the Board. The AOI also provides that holders of preferred shares are entitled to receive, to the fullest extent allowable under the law, dividends at the rate of ₱1.50 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 ₱0.25 per common share and ₱0.375 per preferred share on March 11, May 27, August 5 and November 4, 2020. In addition, on December 1, 2020, the Board approved the declaration of cash dividends to holders of preferred shares in the amount of ₱0.375 per preferred share conformably with the AOI of the Company.

### 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. In 2020, in view of the COVID-19 pandemic, the stockholders' meeting was held virtually. 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 2020 RSM, the IS was sent to the stockholders on June 1, 2020 (by uploading an electronic copy in the Company's website; and PSE Edge in compliance with SEC Notice dated April 20, 2020).

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 Articles of Incorporation (the "Articles") or an amendment thereto. Under the Company's Articles, 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 are also given 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 training. Formal training by the Company, which 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

In 2020, the challenges brought by the COVID-19 pandemic necessitated the need for the Company to quicky shift to virtual learning platforms from the conventional classroom set-up. Despite the circumstances, the Company maximized the opportunity to develop and enhance the competencies and capabilities of its employees. Among the training and development programs conducted were Understanding Environment Regulation (DAO 2016-08), Shopper Marketing, Basic Selling Skills, Basic Laboratory Skills, Defensive Driving and Equipment Maintenance. Other training programs provided are the following: Bottlewasher Fundamental, Reverse Osmosis Technology, Winning with the COVID-19 Consumer and Shopper (Shopper Marketing), Marketing 101: Understanding Marketing Principles, Basic Key Accounts Management, Personal Energy Management Workshop, Water Treatment Course, and other Mental Health-related programs.

To ensure the development of the technical skills of its employees, functional/technical schools were maintained through online platforms, 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., maintains its own technical school, the Distileria Bago, Inc. Technical School, in a similar manner.

In 2020, the Company offered 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 through online platforms:

- **SMC – Ancilla Management Development Program -** This is an 18-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 builds general management perspective, providing young leaders the critical skills for success; and

- **Other Trainings -** Distillery 101, Administrative Investigation and Grievance Handling, Code of Champions, Sales and Distribution, 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 regularly 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. Similarly, 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: Mental Health and Mindfulness, Financial Literacy, Sustainable Gardening and Phone Photography. Because of the COVID-19 pandemic, the Company has shifted such celebrations, events and initiatives online through the use of virtual meeting platforms.

The Company also encourages its employees to participate in meaningful activities such as the Ginebra Shoebox of Malasakit (GSM) Project, where employees voluntarily donate shoeboxes filled with school supplies and personal hygiene items for distribution to residents of chosen communities.

## 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 with 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 with 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 uses 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, 2020

The Audit and Risk Oversight Committee (the "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 2020:

- 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 2020;
- 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 2020;
- Reviewed, discussed and recommended for approval of the Board the Company's Separate and Consolidated Financial Statements for 2019, as well as the Company's SEC Form 17-Q or Quarterly Financial Statements for 2020 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 2020;
- Reviewed, discussed and recommend for approval of the Board the Material Related Party Transactions of the Company in 2020;
- 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 2020.
- 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 2020.

**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, 2020, 2019 and 2018, 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.

**CYNTHIA M. BAROY**
Chief Finance Officer

**RAMON S. ANG**
President

Signed this 10th day of March 2021

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
Internet www.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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, 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 Matter*

Key audit matter is a matter that, in our professional judgment, is of most significance in our audit of the consolidated financial statements of the current period. This matter is 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 this matter.

*Revenue Recognition (P36,202 million)*

Refer to Note 3, *Significant Accounting Policies* to the consolidated financial statements.

*The risk*

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

*Our response*

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

- We evaluated and assessed the revenue recognition policies of the Group in accordance with PFRS 15, *Revenue from Contracts with Customers*.

- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.

- We involved our information technology specialists, as applicable, to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.

- We vouched, on a sampling basis, sales transactions to supporting documentation such as sales invoices and delivery documents to ascertain that revenue recognition criteria is met.

- We tested, on a sampling basis, sales transactions for the last month of the reporting period and also the first month of the following reporting period to supporting documentation such as sales invoices and delivery documents to assess whether these transactions are recorded in the appropriate reporting period.

- 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 reporting period, to identify and assess any credit notes that relate to sales transactions recognized during the reporting period.

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*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, 2020 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, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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. 94495-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
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 8533922
Issued January 4, 2021 at Makati City

March 18, 2021
Makati City, Metro Manila

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2020 AND 2019**
(In Thousands)

| | Note | 2020 | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 4, 5, 30, 31 | **P2,819,574** | P354,131 |
| Trade and other receivables - net | 4, 6, 26, 30, 31 | **953,698** | 1,551,469 |
| Inventories | 4, 7 | **5,946,809** | 6,113,043 |
| Prepaid expenses and other current assets | 8, 26, 30, 31 | **1,154,046** | 1,080,723 |
| **Total Current Assets** | | **10,874,127** | 9,099,366 |
| **Noncurrent Assets** | | | |
| Investments in joint ventures | 4, 9 | **4,451** | 57,963 |
| Property, plant and equipment - net | 4, 10 | **4,221,595** | 4,441,137 |
| Right-of-use assets - net | 4, 11, 26, 27 | **156,597** | 196,218 |
| Goodwill - net | 4, 12 | **126,863** | 126,863 |
| Deferred tax assets - net | 4, 17 | **582,807** | 567,944 |
| Other noncurrent assets - net | 4, 13, 26, 30, 31 | **87,606** | 169,731 |
| **Total Noncurrent Assets** | | **5,179,919** | 5,559,856 |
| | | **P16,054,046** | P14,659,222 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Notes payable | 14, 26, 30, 31 | **P -** | P1,519,000 |
| Accounts payable and accrued expenses | 15, 26, 30, 31 | **5,146,148** | 4,208,502 |
| Lease liabilities - current portion | 26, 27, 30, 31 | **31,724** | 67,980 |
| Income and other taxes payable | | **377,018** | 346,417 |
| Current maturities of long-term debt - net of debt issue costs | 16, 24, 30, 31 | **165,417** | 233,791 |
| **Total Current Liabilities** | | **5,720,307** | 6,375,690 |
| **Noncurrent Liabilities** | | | |
| Retirement liabilities | 4, 28 | **404,797** | 363,083 |
| Long-term debt - net of current maturities and debt issue costs | 16, 30, 31 | **330,847** | 642,964 |
| Lease liabilities - net of current portion | 26, 27, 30, 31 | **146,036** | 157,684 |
| **Total Noncurrent Liabilities** | | **881,680** | 1,163,731 |
| **Total Liabilities** | | **6,601,987** | 7,539,421 |
| **Equity** | 18 | | |
| Capital stock | | **399,063** | 399,063 |
| Additional paid-in capital | | **2,539,454** | 2,539,454 |
| Equity reserves | | **(400,215)** | (311,470) |
| Retained earnings: | | | |
| Appropriated | | **2,500,000** | 2,500,000 |
| Unappropriated | | **7,083,730** | 4,662,727 |
| Treasury stock | | **(2,669,973)** | (2,669,973) |
| **Total Equity** | | **9,452,059** | 7,119,801 |
| | | **P16,054,046** | P14,659,222 |

*See Notes to the Consolidated Financial Statements.*

## GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Thousands, Except Per Share Data)

| | *Note* | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **SALES** | *26* | **P36,201,782** | P29,063,235 | P24,834,987 |
| **COST OF SALES** | *19* | **26,993,100** | 21,127,308 | 18,359,888 |
| **GROSS PROFIT** | | **9,208,682** | 7,935,927 | 6,475,099 |
| **SELLING AND MARKETING EXPENSES** | *20* | **(2,836,732)** | (2,771,512) | (2,560,340) |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | *21* | **(2,565,925)** | (2,286,235) | (2,083,051) |
| **INTEREST EXPENSE AND OTHER FINANCING CHARGES** | *10, 14, 16, 24, 27, 28* | **(122,330)** | (169,601) | (220,658) |
| **EQUITY IN NET LOSSES OF JOINT VENTURES** | *9* | **-** | (238,125) | (82,822) |
| **INTEREST INCOME** | *5, 26* | **32,656** | 31,594 | 24,681 |
| **GAIN (LOSS) ON DISPOSAL/RETIREMENT OF NONCURRENT ASSETS** - Net | *10,13* | **(14,891)** | 1,532 | 622 |
| **OTHER INCOME** - Net | *25* | **302,353** | 117,762 | 10,227 |
| **INCOME BEFORE INCOME TAXES** | | **4,003,813** | 2,621,342 | 1,563,758 |
| **INCOME TAX EXPENSE** - Net | *17* | **1,247,302** | 949,554 | 510,719 |
| **NET INCOME** | | **P2,756,511** | P1,671,788 | P1,053,039 |
| **Basic and Diluted Earnings Per Share** | *29* | **P9.46** | P5.67 | P3.51 |

*See Notes to the Consolidated Financial Statements.*

## GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Thousands)

| | *Note* | **2020** | 2019 | 2018 |
|---|---|---|---|---|
| **NET INCOME** | | **P2,756,511** | P1,671,788 | P1,053,039 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Item that may be reclassified to profit or loss** | | | | |
| Share in other comprehensive income (loss) of joint ventures | *9* | **(53,512)** | 15,677 | 16,943 |
| **Items that will not be reclassified to profit or loss** | | | | |
| Equity reserve for retirement plan | *28* | **(50,333)** | (182,785) | 256,944 |
| Income tax benefit (expense) | *17* | **15,100** | 54,835 | (77,083) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** - Net of tax | | **(88,745)** | (112,273) | 196,804 |
| **TOTAL COMPREHENSIVE INCOME -** Net of tax | | **P2,667,766** | P1,559,515 | P1,249,843 |

*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, 2020, 2019 AND 2018

(In Thousands)

| | | Capital Stock | | Additional | Equity Reserves | | Retained Earnings | | Treasury Stock | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Paid-in | Reserve for Retirement | Cumulative Translation | | | | | |
| | *Note* | Common | Preferred | Capital | Plan | Adjustments | ppropriated | Jnappropriated | Common | Preferred | Total |
| **As at January 1, 2020** | | **P345,625** | **P53,438** | **P2,539,454** | **(P369,433)** | **P57,963** | **P2,500,000** | **P4,662,727** | **(P1,947,198)** | **(P722,775)** | **P7,119,801** |
| Share in other comprehensive loss of joint ventures | *9* | - | - | - | - | (53,512) | - | - | - | - | (53,512) |
| Equity reserve for retirement plan | *28* | - | - | - | (35,233) | - | - | - | - | - | (35,233) |
| Other comprehensive loss | | - | - | - | (35,233) | (53,512) | - | - | - | - | (88,745) |
| Net income | | - | - | - | - | - | - | 2,756,511 | - | - | 2,756,511 |
| Total comprehensive income | | | | | (35,233) | (53,512) | - | 2,756,511 | - | - | 2,667,766 |
| Cash dividends and distribution: | | | | | | | | | | | |
| Common | | - | - | - | - | - | - | (286,328) | - | - | (286,328) |
| Preferred | | - | - | - | - | - | - | (49,180) | - | - | (49,180) |
| Total cash dividends and distributions | *18* | - | - | - | - | - | - | (335,508) | - | - | (335,508) |
| **As at December 31, 2020** | *18* | **P345,625** | **P53,438** | **P2,539,454** | **(P404,666)** | **P4,451** | **P2,500,000** | **P7,083,730** | **(P1,947,198)** | **(P722,775)** | **P9,452,059** |

*Forward*

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

*See Notes to the Consolidated Financial Statements.*

**GINEBRA SAN MIGUEL INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**
(In Thousands)

| | *Note* | **2020** | 2019 | 2018 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | | **P4,003,813** | P2,621,342 | P1,563,758 |
| Adjustments for: | | | | |
| Depreciation and amortization | *10, 11, 13, 22* | **746,791** | 723,218 | 671,440 |
| Equity in net losses of joint ventures | *9* | **-** | 238,125 | 82,822 |
| Interest expense and other financing charges | *10, 14, 16, 24, 27, 28* | **122,330** | 169,601 | 220,658 |
| Provision for impairment losses | *6, 13, 21, 25* | **544,417** | 112,804 | 112,106 |
| Retirement expense | *23, 28* | **79,318** | 60,738 | 102,741 |
| Net unrealized foreign exchange loss | *25, 30* | **1,860** | 806 | 525 |
| Write-down of inventories to net realizable value | *7, 19* | **-** | - | 25,500 |
| Loss (gain) on disposal/retirement of noncurrent assets - net | *10, 13* | **14,891** | (1,532) | (622) |
| Interest Income | *5, 26* | **(32,656)** | (31,594) | (24,681) |
| Net derivative (gain) loss | *25, 31* | **(88,294)** | (33,221) | 10,250 |
| Operating income before working capital changes | | **5,392,470** | 3,860,287 | 2,764,497 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | **44,493** | 198,712 | (28,858) |
| Inventories | | **237,535** | (2,187,938) | (611,764) |
| Prepaid expenses and other current assets | | **(410,393)** | (169,759) | 122,475 |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | | **932,089** | 1,502,775 | 702,822 |
| Income and other taxes payable | | **(86,554)** | (118,750) | 26,433 |
| Cash generated from operations | | **6,109,640** | 3,085,327 | 2,975,605 |
| Interest received | | **41,515** | 22,647 | 24,425 |
| Contribution to retirement plan | *28* | **(105,892)** | (137,105) | (139,731) |
| Interest and other financing charges paid | | **(94,580)** | (142,958) | (227,132) |
| Taxes paid | | **(772,019)** | (502,889) | (131,077) |
| Net cash flows provided by operating activities | | **5,178,664** | 2,325,022 | 2,502,090 |

*Forward*

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | 10 | **(P403,149)** | (P386,631) | (P273,802) |
| Decrease (increase) in other noncurrent assets | | **12,781** | 31,562 | (29,184) |
| Proceeds from disposal of property and equipment | 10 | **2,329** | 1,846 | 3,205 |
| Net cash flows used in investing activities | | **(388,039)** | (353,223) | (299,781) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Short-term borrowings | 14 | **1,664,200** | 7,714,000 | 38,230,380 |
| Long-term borrowings | 16 | **496,250** | - | 992,500 |
| Payments of: | | | | |
| Lease liabilities | 27 | **(87,249)** | (79,665) | - |
| Long-term borrowings | 16 | **(882,353)** | (117,647) | (114,285) |
| Cash dividends | | **(329,330)** | (686,960) | (4) |
| Short-term borrowings | 14 | **(3,183,200)** | (8,671,100) | (41,286,620) |
| Net cash flows used in financing activities | | **(2,321,682)** | (1,841,372) | (2,178,029) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **(3,500)** | (771) | 1,428 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **2,465,443** | 129,656 | 25,708 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 5 | **354,131** | 224,475 | 198,767 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 5 | **P2,819,574** | P354,131 | P224,475 |

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

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

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 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 corporations comprising the Group have a corporate life of 50 years pursuant to their Articles of Incorporation. However, under the Revised Corporation Code of the Philippines which took effect on February 23, 2019, existing and future corporations have been granted perpetual corporate life. Thus, the corporations comprising the Group shall have a perpetual corporate life.

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 10, 2021.

*Basis of Measurement*

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

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

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

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

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

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

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

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

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

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

## 3. Significant Accounting Policies

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

*Adoption of Amended Standards and Framework*

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

The Group has adopted the following PFRS effective January 1, 2020 and accordingly, changed its accounting policies in the following areas:

- 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 make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). 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 definition 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.

- 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 material. The amended definition of 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.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, *Financial Instruments*, 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 Group has early adopted the below PFRS effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, *Leases*). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient applies if:

    - the revised consideration is substantially the same or less than the original consideration;

    - the reduction in lease payments relates to payments due on or before June 30, 2021; and

    - no other substantive changes have been made to the terms of the lease.

The Group has applied the amendment retrospectively.

The adoption of the amended standards and framework did not have a material effect on the consolidated financial statements.

*Standards Issued But Not Yet Adopted*

A number of new and amended standards are effective for annual periods beginning after January 1, 2020 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 on the respective effective dates:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

    - *Practical expedient for particular changes to contractual cash flows.* As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

    - *Relief from specific hedge accounting requirements.* The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

    - *Disclosure requirements.* To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021. Earlier application is permitted. The amendments retrospectively, but restatement of comparative information is not required. Reinstatement of a discontinued hedging relationship is required if the hedging relationship was discontinued solely because of changes required by the reform, and that discontinued hedging relationship meets all qualifying criteria for hedge accounting at the date of initial application.

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

- Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statements of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statements of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards of which the following are applicable to the Group:

  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- Reference to the Conceptual Framework (Amendment to PFRS 3). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21 *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

  The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. Earlier application is permitted.

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*: 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, 2020 and 2019.

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

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

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

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

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

*Financial Liabilities*

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

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

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

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

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

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

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

*Derecognition of Financial Assets and Financial Liabilities*

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

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

*Impairment of Financial Assets*

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

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

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

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

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

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the restructuring of a financial asset by the Group on terms that the Group would not consider otherwise;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

*Classification of Financial Instruments between Liability and Equity*

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

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

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

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

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

*Offsetting Financial Instruments*

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

*Derivative Financial Instrument*

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

*Embedded Derivatives*

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

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

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

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

The Group has embedded derivatives as at December 31, 2020 and 2019 (Notes 8, 15, 30 and 31).

*Inventories*

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

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

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

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

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

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

*Prepaid Expenses and Other Current Assets*

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

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

*Business Combination*

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

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

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

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

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

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

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

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

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

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

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

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

*Property, Plant and Equipment*

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

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

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

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

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

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

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

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

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

*Leases*

*Policy Applicable from January 1, 2019*

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

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

*Group as Lessee*

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

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

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

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

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

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

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

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

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

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

The Group has applied COVID-19-Related Rent Concessions. The Group applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Group applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Group chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Group assesses whether there is a lease modification.

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

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

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

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

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

*Policy Applicable before January 1, 2019*

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

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or an extension is granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or

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

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

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

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

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

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

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

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

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

*Deferred Containers*

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

*Impairment of Non-financial Assets*

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

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

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

*Fair Value Measurements*

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

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

*Provisions*

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

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

*Capital Stock and Additional Paid-in Capital*

*Common Shares*

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

*Preferred Shares*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Others.* Other income is recognized when earned.

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

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

*Research Costs*
Research costs are expensed as incurred.

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

*Foreign Currency*

*Foreign Currency Translations*

Transactions in foreign currencies are initially recorded in the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date.

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

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of monetary items that in substance form part of a net investment in a foreign operation and hedging instruments in a qualifying cash flow hedge or hedge of a net investment in a foreign operation which are recognized in other comprehensive income.

*Foreign Operations*

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

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

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

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

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

*Taxes*

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

*Related Parties*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

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

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

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

*Operating Segment*

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

*Contingencies*

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

Events After the Reporting Date

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

## 4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

*Operating Lease Commitments - Group as 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 in 2018 (Notes 19, 20, 21 and 27).

*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 P181, P444 and P186 in 2020, 2019 and 2018, respectively (Notes 25, 26 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 P177,760 and P225,664 as at December 31, 2020 and 2019, respectively (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 P212,196 and P131,231 in 2020 and 2019, respectively. The allowance for impairment losses on trade receivables amounted to P7,929 and P217,100 as at December 31, 2020 and 2019, respectively (Notes 6 and 13). The carrying amount of trade receivables amounted to P646,880 and P617,740 as at December 31, 2020 and 2019, 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 forward-looking default rate component of its 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. 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 other financial assets at amortized cost.

The carrying amounts of other financial assets at amortized cost are as follows:

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| **Other Financial Assets at Amortized Cost** | | | |
| Cash and cash equivalents | 5 | **P2,819,574** | P354,131 |
| Non-trade receivables - net of allowance for impairment losses* (included under "Trade and other receivables - net" account) | 6 | **306,818** | 933,729 |
| Noncurrent receivables and deposits - net of allowance for impairment losses** (included under "Other noncurrent assets - net" account) | 13 | **493** | 493 |

**Allowance for impairment losses on non-trade receivables amounted to P682,607 and P142,150 as at December 31, 2020 and 2019, respectively.*

***Allowance for impairment losses on noncurrent receivables and deposits amounted to P41,743 and P149,248 as at December 31, 2020 and 2019, 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 P227,468 and P398,288 as at December 31, 2020 and 2019, respectively (Note 7).

The carrying amount of inventories amounted to P5,946,809 and P6,113,043 as at December 31, 2020 and 2019 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, 2020 and 2019.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P4,529,195 and P4,748,737 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P8,420,190 and P8,316,621 as at December 31, 2020 and 2019, respectively (Note 10).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P156,597 and P196,218 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P118,202 and P55,066 as at December 31, 2020 and 2019, respectively (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 P60,134 and P113,776 as at December 31, 2020 and 2019, respectively. Accumulated amortization of deferred containers amounted to P314,875 and P312,268 as at December 31, 2020 and 2019, 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, 2020 and 2019.

Intangible assets, net of accumulated amortization, included as part of "Other noncurrent assets" account in the consolidated statements of financial position amounted to P9,739 and P18,313 as at December 31, 2020 and 2019, respectively. Accumulated amortization of intangible assets amounted to P85,864 and P73,749 as at December 31, 2020 and 2019, 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, 2020 and 2019 (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 P582,807 and P567,944 as at December 31, 2020 and 2019, 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 as at December 31, 2020 and 2019, 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 P4,452,516 and P4,827,407 as at December 31, 2020 and 2019 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 P1,431,055 and P1,313,543 as at December 31, 2020 and 2019, 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, 2020 and 2019.

## 5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| Cash in banks and on hand | | **P308,174** | P234,631 |
| Short-term investments | | **2,511,400** | 119,500 |
| | *30, 31* | **P2,819,574** | P354,131 |

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 P32,656, P12,214 and P3,978 in 2020, 2019 and 2018, respectively.

## 6. Trade and Other Receivables

Trade and other receivables consist of:

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| Trade: | | | |
| Third parties | | **P640,242** | P725,394 |
| Related parties | *26* | **14,567** | 1,941 |
| Non-trade: | | | |
| Third parties | | **291,276** | 284,029 |
| Related parties | *26* | **698,149** | 791,850 |
| | | **1,644,234** | 1,803,214 |
| Less allowance for impairment losses | | **690,536** | 251,745 |
| | *30, 31* | **P953,698** | P1,551,469 |

Trade receivables are non-interest bearing and are generally on a 30 to 60-day term. Allowance for impairment losses pertaining to trade receivables amounted to P7,929 and P109,595 as at December 31, 2020 and 2019, respectively.

Non-trade receivables from third parties consist of the following: (i) receivable from employees amounting to P26,810 and P18,439 as at December 31, 2020 and 2019, respectively; (ii) sale of raw materials amounting to P88,643 as at December 31, 2020 and 2019; (iii) tax certificate receivables amounting to P60,028 and P39,500 as at December 31, 2020 and 2019, respectively; (iv) insurance claims amounting to P29,560 and P29,304 as at December 31, 2020 and 2019, respectively; and (v) miscellaneous receivables amounting to P86,235 and P108,143 as at December 31, 2020 and 2019, respectively. These are generally collectible on demand. Allowance for impairment losses pertaining to non-trade receivables amounted to P682,607 and P142,150 as at December 31, 2020 and 2019, respectively.

The movements in allowance for impairment losses for trade and other receivables are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Balance at beginning of year | | **P251,745** | P388,590 |
| Charges for the year | *21* | **544,417** | 1,764 |
| Amounts written off | *30* | **(105,626)** | (131,231) |
| Reclassification to noncurrent receivables | *13* | **-** | (7,114) |
| Reversal of impairment loss | *25* | **-** | (264) |
| Balance at end of year | *4* | **P690,536** | P251,745 |

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:

| | **2020** | 2019 |
|---|---|---|
| At net realizable value: | | |
| Finished goods | **P3,117,199** | P3,924,864 |
| Materials and supplies | **2,829,610** | 2,188,179 |
| | **P5,946,809** | P6,113,043 |

The cost of finished goods amounted to P3,127,687 and P4,008,364 as at December 31, 2020 and 2019, respectively.

The cost of materials and supplies amounted to P3,046,590 and P2,502,967 as at December 31, 2020 and 2019, respectively.

The amount of inventories recognized as expense amounted to P12,317,181, P10,579,541 and P9,120,229 in 2020, 2019 and 2018, respectively (Note 19).

No write-down of inventories to net realizable value in 2020 and 2019. The Group has written off inventories amounting to P170,820 and P90,285 in 2020 and 2019, respectively.

The accumulated amount of write-down of inventories amounted to P227,468 and P398,288 as at December 31, 2020 and 2019, respectively (Note 4).

## 8. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Prepaid taxes | | **P1,070,202** | P1,040,221 |
| Derivative assets | *30, 31* | **26,404** | 7,373 |
| Others | *26* | **57,440** | 33,129 |
| | | **P1,154,046** | P1,080,723 |

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

Others include amounts owed by a related party amounting to P330 as at December 31, 2019 (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 | **2020** | 2019 | 2018 |
|---|---|---|---|
| Current assets (including cash and cash equivalents - 2020: P220,999; 2019: P285,214 and 2018: P252,313) | **P942,332** | P986,335 | P866,695 |
| Noncurrent assets | **988,548** | 1,179,087 | 1,253,049 |
| Current liabilities (including financial liabilities - 2020: P1,267,081; 2019: P1,342,289; and 2018: P1,274,586) | **(1,377,984)** | (1,492,064) | (1,324,596) |
| Noncurrent liabilities (including financial liabilities) | **-** | (1,283) | (394) |
| Net assets | **552,896** | 672,075 | 794,754 |
| Percentage of ownership | **44.9%** | 44.9% | 44.9% |
| Amount of investment in joint venture | **P248,250** | P301,762 | P356,845 |
| Carrying amount of investment in joint venture - net | **P4,451** | P57,963 | P280,413 |

| TSML | 2020 | 2019 | 2018 |
|---|---|---|---|
| Sales | **P1,375,440** | P1,341,509 | P1,412,831 |
| Cost of sales (including depreciation - 2020: P135,827; 2019: P141,420 and 2018: P134,361) | **(1,337,290)** | (1,346,731) | (1,295,908) |
| Operating expenses (including depreciation - 2020: P4,080; 2019: P5,450 and 2018: P5,274) | **(102,108)** | (95,723) | (83,877) |
| Other charges (including interest expense - 2020: P31,562; 2019: P45,628 and 2018: P48,157) | **(21,048)** | (56,645) | (47,274) |
| Net loss | **(85,006)** | (157,590) | (14,228) |
| Percentage of ownership | **44.9%** | 44.9% | 44.9% |
| Share in net loss | **(38,168)** | (70,758) | (6,388) |
| Share in other comprehensive income (loss) | **(53,512)** | 15,677 | 16,943 |
| Total comprehensive income (loss) | **(P91,680)** | (P55,081) | P10,555 |

| TGT | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current assets (including cash and cash equivalents - 2020: P11,316; 2019: P7,316 and 2018: P11,899) | **P27,972** | P22,651 | P26,814 |
| Noncurrent assets | **934** | 1,218 | 143 |
| Current liabilities | **(973,744)** | (1,011,184) | (956,565) |
| Noncurrent liabilities | **-** | (1,215) | (813) |
| Net liabilities | **(944,838)** | (988,530) | (930,421) |
| Percentage of ownership | **44.9%** | 44.9% | 44.9% |
| Carrying amount of investment in joint venture | **(P424,232)** | (P443,850) | (P417,759) |

| TGT | 2020 | 2019 | 2018 |
|---|---|---|---|
| Sales | **P50,405** | P82,353 | P89,643 |
| Cost of sales | **(41,981)** | (69,426) | (77,205) |
| Operating expenses (including depreciation - 2020: P203; 2019: P3 and 2018: P1) | **(20,249)** | (21,686) | (17,100) |
| Other income | **256** | 211 | 43 |
| Net loss | **(11,569)** | (8,548) | (4,619) |
| Percentage of ownership | **44.9%** | 44.9% | 44.9% |
| Share in net loss | **(5,194)** | (3,838) | (2,074) |
| Share in other comprehensive loss | **(19,620)** | (17,392) | (22,657) |
| Total comprehensive loss | **(P24,814)** | (P21,230) | (P24,731) |

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 2020 and 2019. 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 that its investment in TSML is fully impaired in 2019, resulting in the recognition of impairment loss amounting to P167,367 in 2019 included as part of "Equity in net losses of joint ventures" account, in the consolidated statements of income. Accumulated impairment losses amounted to P243,799 as at December 31, 2020 and 2019.

The Group discontinued recognizing its share in the net losses of TSML since the cumulative losses already exceeded the cost of investment. If TSML 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 losses amounted to P38,168 as at December 31, 2020.

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 exceeded 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 P424,232 and P443,850 as at December 31, 2020 and 2019, 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, 2019 | P789,149 | P2,139,487 | P309,896 | P8,406,120 | P919,620 | P156,839 | P65,037 | P12,786,148 |
| 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 |
| Additions | 120,000 | 30,164 | 26,837 | 46,753 | 47,137 | 15,164 | 125,095 | 411,150 |
| Disposals/retirement | (2,937) | (9,496) | (17,486) | (38,098) | (463,522) | (10) | - | (531,549) |
| Reclassifications | 80,768 | 65,919 | 3,298 | 45,736 | 3,258 | (71,023) | (123,530) | 4,426 |
| **December 31, 2020** | 990,281 | 2,260,617 | 366,862 | 8,530,464 | 524,007 | 108,409 | 168,745 | 12,949,385 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| January 1, 2019 | 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 |
| Depreciation and amortization | 8,663 | 83,423 | 40,420 | 415,989 | 72,001 | 9,032 | - | 629,528 |
| Disposals/retirement | (2,937) | (7,530) | (15,995) | (35,967) | (463,520) | (10) | - | (525,959) |
| Reclassifications | (31,798) | 393 | - | - | (5) | 31,410 | - | - |
| **December 31, 2020** | 184,736 | 1,259,580 | 250,367 | 6,220,453 | 407,310 | 97,744 | - | 8,420,190 |
| **Accumulated Impairment Losses** | | | | | | | | |
| **December 31, 2019 and 2020** | **-** | **-** | **-** | **307,600** | **-** | **-** | **-** | **307,600** |
| **Carrying Amount** | | | | | | | | |
| December 31, 2019 | P581,642 | P990,736 | P128,271 | P2,328,042 | P138,300 | P106,966 | P167,180 | P4,441,137 |
| **December 31, 2020** | **P805,545** | **P1,001,037** | **P116,495** | **P2,002,411** | **P116,697** | **P10,665** | **P168,745** | **P4,221,595** |

The recoverable amount of unutilized machinery and 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 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 accumulated impairment losses of unutilized machinery and equipment amounted to P307,600 as at December 31, 2020 and 2019.

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 has fully-depreciated assets with cost amounting to P2,459,743 and P2,168,072 as at December 31, 2020 and 2019, respectively, which are still used in operations.

The Group sold transportation equipment for P2,329, P1,846, and P3,205 in 2020, 2019 and 2018, respectively. Accordingly, the Group recognized gains amounting to P1,593, P1,564 and P625, included as part of "Gain (loss) on disposal/retirement of noncurrent assets - net" account in the consolidated statements of income in 2020, 2019, and 2018, respectively.

The carrying amount of certain property and equipment retired from use amounted to P4,854, P32 and P3 as at December 31, 2020, 2019, and 2018, respectively, and accordingly recognized a loss for the same amount, included as part of "Gain (loss) on disposal/retirement of noncurrent assets - net" account in the consolidated statements of income.

Total depreciation and amortization recognized in the consolidated statements of income amounted to P629,528, P610,418 and P611,263 in 2020, 2019 and 2018, respectively (Notes 19, 20, 21 and 22). These amounts include annual amortization of capitalized interest amounting to P6,763, P7,223 and P12,950 in 2020, 2019 and 2018, respectively.

The Group has interest amounting to P4,426, P3,834 and P3,932 which was capitalized to machinery and equipment in 2020, 2019 and 2018, respectively (Note 24). The capitalization rates used to determine the amount of interest eligible for capitalization were 9.13%, 7.50% and 5.16% in 2020, 2019 and 2018 respectively. The unamortized capitalized borrowing costs amounted to P20,071 and P22,408 as at December 31, 2020 and 2019, 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** | | | | |
| January 1, 2019 | | P54,687 | P170,752 | P225,439 |
| Additions | *27* | - | 25,845 | 25,845 |
| December 31, 2019 | | 54,687 | 196,597 | 251,284 |
| Additions | *27* | - | 23,515 | 23,515 |
| **December 31, 2020** | | 54,687 | 220,112 | 274,799 |
| **Accumulated Depreciation and Amortization** | | | | |
| January 1, 2019 | | - | - | - |
| Depreciation and amortization | *22* | 14,894 | 40,172 | 55,066 |
| December 31, 2019 | | 14,894 | 40,172 | 55,066 |
| Depreciation | *22* | 14,894 | 48,242 | 63,136 |
| **December 31, 2020** | | 29,788 | 88,414 | 118,202 |
| **Carrying Amount** | | | | |
| December 31, 2019 | | P39,793 | P156,425 | P196,218 |
| **December 31, 2020** | | **P24,899** | **P131,698** | **P156,597** |

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 2 to 15 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 (Notes 26 and 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 6%. 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 2020 and 2019. 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. Improvement in operations of EPSBPI was noted starting 2016.

The revenues generated by EPSBPI is heavily dependent on the volume requirements of GSMI in which it has significantly recovered in the second half of 2020 after the liquor ban imposed by the local and national government due to the spread of Coronavirus Disease 2019 (COVID-19) pandemic was lifted on selected locations and key areas in the country. Based on management's assumptions, the COVID-19 pandemic does not have a significant impact in the cash flow projections of EPSBPI.

Due to improvement in the operations of EPSBPI starting 2016 and the growth in volume requirements of GSMI, no additional impairment was recognized.

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* | **2020** | 2019 |
|---|---|---|---|
| Deferred containers - net | | **P60,134** | P113,776 |
| Intangible assets - net | | **9,739** | 18,313 |
| Noncurrent receivables and deposits - net | *26, 30, 31* | **493** | 493 |
| Others | | **17,240** | 37,149 |
| | | **P87,606** | P169,731 |

The movements in deferred containers are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of year | | **P426,044** | P426,044 |
| Retirement | | **(51,035)** | - |
| Balance at end of year | | **375,009** | 426,044 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **312,268** | 270,358 |
| Amortization | 22 | **42,012** | 41,910 |
| Retirement | | **(39,405)** | - |
| **Balance at end of year** | | **314,875** | 312,268 |
| **Carrying Amount** | | **P60,134** | P113,776 |

Amortization of deferred containers, included as part of "Cost of Sales" and "General and administrative expenses" account in the consolidated statements of income, amounted to P42,012, P41,910 and P41,910 in 2020, 2019 and 2018, respectively (Notes 21 and 22).

The cost of deferred containers retired from future use amounted to P51,035. The Group recognized loss on retirement on deferred containers amounting to P11,630 included as part of "Gain (loss) on disposal/retirement of noncurrent assets - net" account in the consolidated statements of income in 2020.

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

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of year | | **P92,062** | P132,608 |
| Additions | | **3,541** | 1,504 |
| Retirement | | **-** | (42,050) |
| **Balance at end of year** | | **95,603** | 92,062 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **73,749** | 99,975 |
| Amortization | *22* | **12,115** | 15,824 |
| Retirement | | **-** | (42,050) |
| **Balance at end of year** | | **85,864** | 73,749 |
| **Carrying Amount** | | **P9,739** | P18,313 |

Amortization expense, included as part of "General and administrative expenses" account in the consolidated statements of income, amounted to P12,115, P15,824, and P18,267 in 2020, 2019 and 2018, respectively (Notes 21 and 22).

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

Noncurrent receivables and deposits - net includes: (i) security deposits amounting to P493 as at December 31, 2020 and 2019 (Note 26); (ii) trade receivables referred to legal and receivables from terminated dealers amounting to nil and P107,505 as at December 31, 2020 and 2019, respectively; and (iii) non-trade receivables amounting to P41,743 as at December 31, 2020 and 2019. Allowance for impairment losses pertaining to these items amounted to P41,743 and P149,248 as at December 31, 2020 and 2019, respectively.

The movements in allowance for impairment losses are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Balance at beginning of year | | **P149,248** | P163,645 |
| Reversals | *25* | **(935)** | (21,511) |
| Amounts written off | *30* | **(106,570)** | - |
| Reclassification from current receivables | *6* | **-** | 7,114 |
| Balance at end of year | | **P41,743** | P149,248 |

"Others" is composed of: (i) input taxes on the acquisition of capitalizable assets amounting to P2,848 and P6,421 as at December 31, 2020 and 2019, respectively; (ii) advances to suppliers amounting to P14,169 and P30,515 as at December 31, 2020 and 2019, respectively; and (iii) others amounting to P223 and P213 as at December 31, 2020 and 2019, respectively.

The Group has advances for a project pertaining to unassembled vacuum distillation equipment that is temporarily put on hold. 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 recoverable amount of such advances amounted to nil as at December 31, 2020 and 2019, net of accumulated allowance for impairment losses amounting to P222,146 as at December 31, 2020 and 2019.

## 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 4.25% to 6.00% and 4.75% to 6.88% in 2020 and 2019, respectively.

Changes in liabilities arising from financing activities are as follows:

| | **2020** | 2019 |
|---|---|---|
| **Balance at beginning of year** | **P1,519,000** | P2,476,100 |
| **Changes from Financing Cash Flows** | | |
| Proceeds from borrowings | **1,664,200** | 7,714,000 |
| Payments of borrowings | **(3,183,200)** | (8,671,100) |
| **Total Changes from Financing Cash Flows** | **1,519,000** | (957,100) |
| **Balance at end of year** | **P -** | P1,519,000 |

Notes payable include interest-bearing amounts payable to a related party amounting to nil and P857,000 as at December 31, 2020 and 2019, respectively (Note 26).

Interest expense on notes payable to related parties amounted to P8,025, P1,831 and P639 in 2020, 2019 and 2018, respectively (Note 26).

Interest expense on notes payable recognized in the consolidated statements of income amounted to P26,124, P49,435 and P169,771 in 2020, 2019 and 2018, 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* | **2020** | 2019 |
|---|---|---|---|
| Trade: | | | |
| Third parties | | **P3,652,295** | P2,963,602 |
| Related parties | *26* | **1,365,235** | 1,171,683 |
| Non-trade: | | | |
| Third parties | | **127,508** | 72,178 |
| Related parties | *26* | **892** | 879 |
| Derivative liabilities | *30, 31* | **218** | 160 |
| | *30, 31* | **P5,146,148** | P4,208,502 |

Trade payables are non-interest bearing and are generally on a 30 to 45-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* | 2020 | 2019 |
|---|---|---|---|
| Fixed interest rate of 4.2105% with maturities up to 2023 (a) | | **P496,264** | P - |
| Fixed interest rate of 8.3480% with maturities up to 2023 (b) | | **-** | 876,755 |
| Less current maturities | | **165,417** | 233,791 |
| | *30, 31* | **P330,847** | P642,964 |

a. The amount represents drawdown by GSMI on December 28, 2020 from its three-year credit facility with a local bank amounting to P500,000. The loan is carried at amortized cost and payable semi-annually commencing in June 2021. The proceeds were used for general corporate requirements.

   Unamortized debt issue costs amounted to P3,736 as at December 31, 2020.

   The Company is in compliance with the covenants of the debt agreement as at December 31, 2020 (Note 30).

b. 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 nil and P5,598 as at December 31, 2020 and 2019, respectively.

   GSMI settled the loan on September 24, 2020.

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

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

| | 2020 | 2019 |
|---|---|---|
| **Balance at beginning of year** | **P876,755** | P992,903 |
| **Changes from Financing Cash Flows** | | |
| Proceeds from borrowings | **496,250** | - |
| Payments of borrowings | **(882,353)** | (117,647) |
| **Total Changes from Financing Cash Flows** | **(386,103)** | (117,647) |
| Amortization of debt issue cost | **5,612** | 1,499 |
| **Balance at end of year** | **P496,264** | P876,755 |

The movement in debt issue costs are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year | **P5,598** | P7,097 |
| Additions | **3,750** | - |
| Amortization | **(5,612)** | (1,499) |
| Balance at end of year | **P3,736** | P5,598 |

*Repayment Schedule*

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

| Year | Gross Amount | Debt Issue Costs | Net |
|---|---|---|---|
| 2021 | P166,667 | P1,250 | P165,417 |
| 2022 | 166,667 | 1,250 | 165,417 |
| 2023 | 166,666 | 1,236 | 165,430 |
| **Total** | **P500,000** | **P3,736** | **P496,264** |

Interest expense on existing and settled long-term debt amounted to P50,546, P82,067 and P24,634 in 2020, 2019 and 2018, 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:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current | **P1,247,065** | P828,367 | P520,669 |
| Deferred | **237** | 121,187 | (9,950) |
| | **P1,247,302** | P949,554 | P510,719 |

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

| **2020** | **Balance at January 1** | **Recognized in Profit or Loss** | **Recognized in Other Comprehensive Income** | **Balance at December 31** |
|---|---|---|---|---|
| NOLCO | **P826** | **(P352)** | **P -** | **P474** |
| MCIT | **54** | **68** | **-** | **122** |
| Provision for impairment losses | **222,425** | **55,616** | **-** | **278,041** |
| Equity reserve for retirement plan | **158,328** | **-** | **15,100** | **173,428** |
| Allowance for write-down of inventories | **119,487** | **(51,247)** | **-** | **68,240** |
| Past service costs | **70,487** | **(2,461)** | **-** | **68,026** |
| Leases | **34,800** | **3,601** | **-** | **38,401** |
| Various accruals | **19,583** | **1,800** | **-** | **21,383** |
| Unrealized foreign exchange loss - net | **242** | **316** | **-** | **558** |
| Derivative liabilities – net | **(2,163)** | **(5,693)** | **-** | **(7,856)** |
| Unamortized capitalized borrowing costs | **(6,722)** | **701** | **-** | **(6,021)** |
| Net defined benefit retirement surplus | **(49,403)** | **(2,586)** | **-** | **(51,989)** |
| | **P567,944** | **(P237)** | **P15,100** | **P582,807** |

| 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 - | P385 | P - | P826 |
| MCIT | 45 | - | 9 | - | 54 |
| Provision for impairment losses | 317,732 | - | (95,307) | - | 222,425 |
| Equity reserve for retirement plan | 103,493 | - | - | 54,835 | 158,328 |
| Allowance for write-down of inventories | 146,572 | - | (27,085) | - | 119,487 |
| Past service costs | 57,974 | - | 12,513 | - | 70,487 |
| Leases | - | 28,291 | 6,509 | - | 34,800 |
| Various accruals | 18,259 | - | 1,324 | - | 19,583 |
| Unrealized foreign exchange loss - net | 157 | - | 85 | - | 242 |
| Derivative liabilities - net | (347) | - | (1,816) | - | (2,163) |
| Unamortized capitalized borrowing costs | (7,739) | - | 1,017 | - | (6,722) |
| Net defined benefit retirement surplus | (30,582) | - | (18,821) | - | (49,403) |
| | P606,005 | P28,291 | (P121,187) | P54,835 | P567,944 |

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

| | **2020** | 2019 |
|---|---|---|
| Adjustment due to adoption of PFRS 16 | **P -** | P28,291 |
| Amount charged to profit or loss | **(237)** | (121,187) |
| Amount charged to other comprehensive income | **15,100** | 54,835 |
| | **P14,863** | (P38,061) |

As at December 31, 2020, 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 |
|---|---|---|---|---|---|
| 2018 | P1,470 | P - | (P1,173) | P297 | 2021 |
| 2019 | 1,283 | - | - | 1,283 | 2022 |
| | P2,753 | P - | (P1,173) | P1,580 | |

As at December 31, 2020, 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 | (P21) | P - | P - | 2020 |
| 2018 | 24 | - | - | 24 | 2021 |
| 2019 | 9 | - | - | 9 | 2022 |
| 2020 | 89 | - | - | 89 | 2023 |
| | P143 | (P21) | P - | P122 | |

On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 25-2020 to implement Section 4 (bbbb) of Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act, relative to NOLCO which provides that the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 shall be carried over as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

The net operating loss for the said taxable years may be carried over as a deduction even after the expiration of RA No. 11494, provided that the same is claimed within the next five consecutive taxable years following the year such loss was incurred.

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

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Increase (decrease) in income tax rate resulting from: | | | |
| Interest income subject to final tax | **(0.08%)** | (0.05%) | (0.03%) |
| Others | **1.23%** | 6.27% | 2.69% |
| Effective income tax rate | **31.15%** | 36.22% | 32.66% |

*Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) Bill*

On November 26, 2020, the Senate approved on third and final reading Senate Bill No. 1357, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act or CREATE, which seeks to reduce the corporate income tax (CIT) rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performance-based.

The bill requires the approval of the Congress and by the President of the Philippines to be enacted as a law. As at December 31, 2020, the bill is still pending with the bicameral committee of Congress and consequently was not yet submitted to the President of the Philippines. Upon submission to the President of the Philippines, he may either approve it or exercise his veto to stop the enactment of the bill.

Since the bill is not considered substantively enacted, the current and deferred taxes are measured using the applicable income tax rates as at December 31, 2020.

The bicameral committee approved the bill on February 1, 2021. As at March 10, 2021, the bill is yet to be approved by the President of the Philippines.

Current and deferred taxes are measured using the applicable income tax rates as at December 31, 2020.

Once the CREATE bill is signed into law, the estimated impact on the Group's consolidated financial statements based on balances as at and for the year ended December 31, 2020, are as follows:

| | |
|---|---|
| **ASSET** | |
| Deferred tax asset | **(P97,303)** |
| | **(P97,303)** |
| **LIABILITY AND EQUITY** | |
| Income and other taxes payable | **(P103,324)** |
| Retained earnings | **6,021** |
| | **(P97,303)** |

Impact on provision for income tax is as follows:

| | |
|---|---|
| Current | **(P103,324)** |
| Deferred | **(87)** |
| | **(P103,411)** |

## 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 stockholders as at December 31, 2020 and 2019.

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

| | **2020** | 2019 |
|---|---|---|
| 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:

| | **2020** | 2019 |
|---|---|---|
| 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:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| 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 2020, 2019 and 2018.

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 P178,889, P471,609, and P90,426 in 2020, 2019 and 2018, 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 2020, 2019 and 2018, representing the cost of common and preferred shares held in treasury.

d. *Appropriated Retained Earnings*

As at December 31, 2020 and 2019, 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 2021.

*e. Dividend Declaration*

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

2020

| **Class of Shares** | **Date of Declaration** | **Date of Record** | **Date of Payment** | **Dividend Per Share** |
|---|---|---|---|---|
| **Common** | March 11, 2020 | March 27, 2020 | April 15, 2020 | **P0.250** |
| | May 27, 2020 | June 15, 2020 | June 25, 2020 | **0.250** |
| | August 5, 2020 | August 24, 2020 | September 3, 2020 | **0.250** |
| | November 4, 2020 | November 19, 2020 | December 3, 2020 | **0.250** |
| **Preferred** | March 11, 2020 | March 27, 2020 | April 15, 2020 | **0.375** |
| | May 27, 2020 | June 15, 2020 | June 25, 2020 | **0.375** |
| | August 5, 2020 | August 24, 2020 | September 3, 2020 | **0.375** |
| | November 4, 2020 | November 19, 2020 | December 3, 2020 | **0.375** |

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 |

On December 1, 2020, the BOD declared cash dividends to all preferred shareholders of record as of December 18, 2020 amounting to P0.375 per preferred share. Cash dividends paid on January 4, 2021 are pro-rated.

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 | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Taxes and licenses | | **P13,021,144** | P8,878,545 | P7,547,596 |
| Inventories | 7 | **12,317,181** | 10,579,541 | 9,120,229 |
| Utilities and supplies | | **525,017** | 480,924 | 526,945 |
| Depreciation and amortization | 10, 11, 13, 22 | **334,552** | 341,127 | 347,658 |
| Personnel | 23, 28 | **318,061** | 318,459 | 289,939 |
| Repairs and maintenance | | **171,945** | 299,408 | 248,731 |
| Outside services | | **145,283** | 119,830 | 109,399 |
| Tolling fees | | **106,259** | 57,958 | 72,624 |
| Freight, trucking and handling | | **24,427** | 9,574 | 462 |
| Insurance | | **10,652** | 4,127 | 2,249 |
| Rent | 27 | **1,002** | 14,425 | 43,730 |
| Write-down of inventories to net realizable value | 7 | **-** | - | 25,500 |
| Others | | **17,577** | 23,390 | 24,826 |
| | | **P26,993,100** | P21,127,308 | P18,359,888 |

## 20. Selling and Marketing Expenses

Selling and marketing expenses consist of:

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Advertising and promotions | | **P1,410,421** | P1,382,550 | P1,384,984 |
| Delivery and marketing | | **693,151** | 652,424 | 602,425 |
| Personnel | 23, 28 | **396,246** | 345,484 | 281,217 |
| Rent | 27 | **68,572** | 46,730 | 39,817 |
| Depreciation and amortization | 10, 11, 22 | **59,302** | 45,900 | 32,013 |
| Outside services | | **57,813** | 85,688 | 73,082 |
| Utilities and supplies | | **37,548** | 50,298 | 49,380 |
| Repairs and maintenance | | **32,313** | 38,892 | 29,726 |
| Insurance | | **24,059** | 4,752 | 4,783 |
| Research | | **21,661** | 40,145 | 287 |
| Travel and transportation | | **19,193** | 47,317 | 37,199 |
| Corporate special program | | **10,547** | 23,776 | 19,920 |
| Others | | **5,906** | 7,556 | 5,507 |
| | | **P2,836,732** | P2,771,512 | P2,560,340 |

## 21. General and Administrative Expenses

General and administrative expenses consist of:

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Personnel | 23, 28 | **P815,462** | P931,314 | P913,723 |
| Provision for impairment losses | 6 | **544,417** | 1,764 | 1,000 |
| Depreciation and amortization | 10, 11, 13, 22 | **352,937** | 336,191 | 291,769 |
| Outside services | 26 | **331,040** | 302,293 | 299,144 |
| Taxes and licenses | | **190,005** | 250,056 | 177,229 |
| Corporate special program | | **117,829** | 69,493 | 45,051 |
| Repairs and maintenance | | **65,636** | 148,773 | 109,915 |
| Insurance | | **65,258** | 120,029 | 62,310 |
| Utilities and supplies | | **40,596** | 44,713 | 45,568 |
| Rent | 27 | **17,150** | 16,282 | 42,145 |
| Travel and transportation | | **12,420** | 36,007 | 39,190 |
| Research | | **11,793** | 27,794 | 47,813 |
| Others | | **1,382** | 1,526 | 8,194 |
| | | **P2,565,925** | P2,286,235 | P2,083,051 |

## 22. Depreciation and Amortization

Depreciation and amortization consist of:

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Property, plant and equipment | 10 | **P629,528** | P610,418 | P611,263 |
| Right-of-use assets | 11 | **63,136** | 55,066 | - |
| Deferred containers | 13 | **42,012** | 41,910 | 41,910 |
| Intangible assets | 13 | **12,115** | 15,824 | 18,267 |
| | | **P746,791** | P723,218 | P671,440 |

Depreciation and amortization are distributed as follows:

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Cost of sales | 19 | **P334,552** | P341,127 | P347,658 |
| Selling and marketing expenses | 20 | **59,302** | 45,900 | 32,013 |
| General and administrative expenses | 21 | **352,937** | 336,191 | 291,769 |
| | | **P746,791** | P723,218 | P671,440 |

## 23. Personnel Expenses

Personnel expenses consist of:

| | Note | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Salaries and wages | | **P931,597** | P945,536 | P808,853 |
| Other employee benefits | | **518,854** | 588,983 | 573,285 |
| Retirement costs | 28 | **79,318** | 60,738 | 102,741 |
| | | **P1,529,769** | P1,595,257 | P1,484,879 |

Personnel expenses are distributed as follows:

| | *Note* | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Cost of sales | *19* | **P318,061** | P318,459 | P289,939 |
| Selling and marketing expenses | *20* | **396,246** | 345,484 | 281,217 |
| General and administrative expenses | *21* | **815,462** | 931,314 | 913,723 |
| | | **P1,529,769** | P1,595,257 | P1,484,879 |

## 24. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

| | *Note* | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Interest on long-term debt | *16* | **P50,546** | P82,067 | P24,634 |
| Interest on notes payable | *14* | **26,124** | 49,435 | 169,771 |
| Interest on defined benefit obligation - net | *28* | **17,955** | 13,629 | - |
| Interest on lease liabilities | *27* | **15,844** | 20,591 | - |
| Other financing charges | *16* | **16,287** | 7,713 | 30,185 |
| Capitalized borrowing costs | *10* | **(4,426)** | (3,834) | (3,932) |
| | | **P122,330** | P169,601 | P220,658 |

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

Amortization of debt issue costs included in "Other financing charges" amounted to P5,612, P1,499 and P403 in 2020, 2019 and 2018, respectively (Note 16).

## 25. Other Income (Charges)

Other income (charges) consist of:

| | *Note* | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Tolling fees | | **P170,899** | P130,796 | P95,386 |
| Net derivative gain (loss) | *31* | **88,294** | 33,221 | (10,250) |
| Sale of scrap materials | | **42,925** | 38,160 | 28,234 |
| Gain on miscellaneous items | *13* | **935** | 21,511 | - |
| Rent income | *27* | **181** | 444 | 186 |
| Provision for impairment losses | *13* | **-** | (111,040) | (111,106) |
| Net unrealized foreign exchange losses | *30* | **(1,860)** | (806) | (525) |
| Others | | **979** | 5,476 | 8,302 |
| | | **P302,353** | P117,762 | P10,227 |

Tolling fees are net of cost amounting to P66,050, P92,708 and P56,659 in 2020, 2019 and 2018, 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 receivables previously provided amounting to P935 and P21,511 in 2020 and 2019, respectively.

## 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. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each reporting period by examining the financial position of the related party and the market in which the related party operates.

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

| | Year | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| Ultimate Parent Company | **2020** | **P -** | **P -** | **P6** | **P -** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | - | - | 6 | - | | |
| | 2018 | 5 | - | 5 | - | | |
| Intermediate Parent Company | **2020** | **6,255** | **477,748** | **4,699** | **48,066** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | 109,642 | 255,044 | 5,746 | 69,005 | | |
| | 2018 | 20,960 | 235,913 | 5,396 | 7,565 | | |
| Parent Company | **2020** | **150** | **-** | **5** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | 55 | - | 5 | - | | |
| | 2018 | 6 | - | 6 | - | | |
| Under Common Control | **2020** | **387,786** | **6,038,212** | **83,476** | **1,386,739** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | 461,483 | 6,119,006 | 156,299 | 1,197,133 | | |
| | 2018 | 474,674 | 4,893,263 | 229,841 | 554,213 | | |
| Joint Venture | **2020** | **-** | **496,873** | **622,953** | **75,632** | On demand; Interest bearing | Unsecured; with impairment |
| | 2019 | 19,432 | 595,431 | 632,732 | 39,136 | | |
| | 2018 | 20,703 | 1,036,147 | 623,649 | 64,337 | | |
| Associate of the Intermediate Parent Company | **2020** | **644** | **-** | **721** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | - | - | - | 857,000 | 3 months; interest bearing | Unsecured; no impairment |
| | 2018 | - | - | - | 522,100 | | |
| Others | **2020** | **899** | **-** | **1,565** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2019 | - | - | - | - | | |
| | 2018 | - | - | - | - | | |
| **Total** | **2020** | **P395,734** | **P7,012,833** | **P713,425** | **P1,510,437** | | |
| Total | 2019 | P590,612 | P6,969,481 | P794,788 | P2,162,274 | | |
| Total | 2018 | P516,348 | P6,165,323 | P858,897 | P1,148,215 | | |

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).

   Right-of-use assets and lease liabilities to related parties amounted to P121,879 and P144,310, respectively, as at December 31, 2020. 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 P10,671 and nil, respectively, in 2020. Amounts owed to related parties pertaining to these leases amounted to P145,202 as at December 31, 2020.

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 in 2018. Rent income from related parties recognized in the consolidated statements of income amounted to P186 in 2018. 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 P192,174, P186,146 and P180,942 in 2020, 2019 and 2018, 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 as at December 31, 2020 and 2019, 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.

   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). Allowance for impairment losses pertaining to these receivables amounted to P540,216 as at December 31, 2020.

   Interest income from amounts owed by TSML, recognized in the consolidated statements of income, amounted to nil, P19,380 and P20,703 in 2020, 2019 and 2018, respectively.

g. Receivables from Bank of Commerce from sale of goods are included as "Non-trade receivables from related parties" under "Trade and other receivables" account in the consolidated statements of financial position as at December 31, 2020. Amounts owed to Bank of Commerce are included in "Notes payable" account in the consolidated statements of financial position (Note 14) which was settled in 2020.

   Interest expense on notes payable to Bank of Commerce amounted to P8,025, P1,831 and P639 in 2020, 2019 and 2018, respectively (Note 14).

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

| | *Note* | **2020** | 2019 | 2018 |
|---|---|---|---|---|
| Short-term employee benefits | | **P47,713** | P51,518 | P40,885 |
| Retirement costs | *28* | **10,608** | 8,417 | 12,331 |
| | | **P58,321** | P59,935 | P53,216 |

## 27. Leasing Agreements

*Group as Lessee under PFRS 16*

The Group has the following lease agreements:

a. The Company leases various warehouse facilities and office spaces under operating leases. These leases typically run for a period of 2 to 15 years. 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 was paid on January 2020. The remaining balance shall be paid by EPSBPI in 12 equal monthly amortizations which was fully paid as of January 31, 2021.

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:

| | **December 31, 2020** | | |
|---|---|---|---|
| | **Future Minimum Lease Payments** | **Interest** | **Present Value of Minimum Lease Payments** |
| Within one year | **P44,054** | **P12,330** | **P31,724** |
| After one year but not more than five years | **84,513** | **38,393** | **46,120** |
| More than five years | **129,600** | **29,684** | **99,916** |
| | **P258,167** | **P80,407** | **P177,760** |

| | December 31, 2019 | | |
|---|---|---|---|
| | 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 P15,844 and P20,591 in 2020 and 2019, respectively (Note 24).

Changes in liabilities are as follows:

| | **2020** | 2019 |
|---|---|---|
| **Balance at beginning of year** | **P225,664** | P258,893 |
| **Changes from Financing Cash Flows** | | |
| Payments of lease liabilities | **(71,419)** | (59,074) |
| **Other Changes** | | |
| Additions during the year | **23,515** | 25,845 |
| **Balance at end of year** | **P177,760** | 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 P86,640 and P84 in 2020, respectively, and P77,427 and P10 in 2019, respectively (Notes 19, 20 and 21).

The Group had total cash outflows for leases of P158,143 and P136,511 in 2020 and 2019, respectively.

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

| | ***Note*** | **2020** | 2019 |
|---|---|---|---|
| Cost of sales | *19* | **P1,002** | P14,425 |
| Selling and marketing expenses | *20* | **68,572** | 46,730 |
| General and administrative expenses | *21* | **17,150** | 16,282 |
| | | **P86,724** | 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 |
|---|---|---|
| Cost of sales | *19* | P43,730 |
| Selling and marketing expenses | *20* | 39,817 |
| General and administrative expenses | *21* | 42,145 |
| | | P125,692 |

*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 P12 and P10 per month in 2020 and 2019, respectively.

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

| | **2020** | 2019 |
|---|---|---|
| Within one year | **P145** | P130 |
| After one year but not more than five years | **656** | 625 |
| After five years | **1,422** | 1,598 |
| | **P2,223** | P2,353 |

Rent income recognized in the consolidated statements of income amounted to P181, P444 and P186 in 2020, 2019 and 2018, 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, 2020. 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 | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| **Balance at beginning of year** | **P950,460** | P720,431 | **(P1,313,543)** | (P963,467) | **(P363,083)** | (P243,036) |
| **Recognized in Profit or Loss** | | | | | | |
| Service costs | **-** | - | **(79,318)** | (60,738) | **(79,318)** | (60,738) |
| Interest expense | **-** | - | **(68,917)** | (72,006) | **(68,917)** | (72,006) |
| Interest income | **50,962** | 58,377 | **-** | - | **50,962** | 58,377 |
| | **50,962** | 58,377 | **(148,235)** | (132,744) | **(97,273)** | (74,367) |
| **Recognized in Other Comprehensive Income** | | | | | | |
| Remeasurements | | | | | | |
| Actuarial gains (losses) arising from: | | | | | | |
| Experience adjustments | **-** | - | **21,321** | (212,651) | **21,321** | (212,651) |
| Changes in financial assumptions | **-** | - | **(44,118)** | (27,018) | **(44,118)** | (27,018) |
| Changes in demographic assumptions | **-** | - | **(4,233)** | 9,328 | **(4,233)** | 9,328 |
| Return on plan assets excluding interest income | **(23,303)** | 47,556 | **-** | - | **(23,303)** | 47,556 |
| | **(23,303)** | 47,556 | **(27,030)** | (230,341) | **(50,333)** | (182,785) |
| **Others** | | | | | | |
| Contributions | **105,892** | 137,105 | **-** | - | **105,892** | 137,105 |
| Benefits paid | **(57,753)** | (13,009) | **57,753** | 13,009 | **-** | - |
| | **48,139** | 124,096 | **57,753** | 13,009 | **105,892** | 137,105 |
| **Balance at end of year** | **P1,026,258** | P950,460 | **(P1,431,055)** | (P1,313,543) | **(P404,797)** | (P363,083) |

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 P67,524, P52,925 and P94,979 in 2020, 2019 and 2018, respectively, while those charged by DBI amounted to P6,800, P5,856 and P7,762 in 2020, 2019 and 2018, respectively and for EPSBPI amounted to P4,994 and P1,957 in 2020 and 2019, respectively (Note 23).

The retirement costs are recognized in the following line items:

| | *Note* | **2020** | 2019 | 2018 |
|---|---|---|---|---|
| Cost of sales | *19* | **P14,830** | P15,457 | P15,393 |
| Selling and marketing expenses | *20* | **15,395** | 15,202 | 14,039 |
| General and administrative expenses | *21* | **49,093** | 30,079 | 73,309 |
| | *23* | **P79,318** | P60,738 | P102,741 |

Retirement liabilities recognized by GSMI amounted to P364,739 and P332,160 as at December 31, 2020 and 2019, respectively, while those recognized by DBI amounted to P29,580 and P27,578 as at December 31, 2020 and 2019, respectively and by EPSBPI amounted to P10,478 and P3,345 as at December 31, 2020 and 2019, respectively.

The carrying amounts of the Group's retirement plan approximate fair values as at December 31, 2020 and 2019.

The Group's plan assets consist of the following:

| | In Percentages | |
|---|---|---|
| | **2020** | 2019 |
| Investments in marketable securities | **53.77** | 40.45 |
| Investments in pooled funds: | | |
| Fixed income portfolio | **17.63** | 29.73 |
| Stock trading portfolio | **-** | 7.81 |
| Others | **28.60** | 22.01 |
| | **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 P27,041 and P21,821 in 2020 and 2019, respectively.

Dividend income from the investment in marketable securities amounted to P11,716 and P9,716 in 2020 and 2019, respectively.

Interest income from the investment in marketable securities amounted to P4,417, P2,541 and P1,038 in 2020, 2019 and 2018, 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.

No investments in pooled funds in stock trading portfolio were investments in shares of stock of SMC and its subsidiaries in 2020.

Approximately 13.06% 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.

Approximately 9.85% and 13.35% 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, 2020 and 2019, 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 P122,639 to the Retirement Plans in 2021.

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** | |
|---|---|---|
| | **2020** | 2019 |
| Discount rate | **3.82 - 3.88** | 5.12 - 5.24 |
| Salary increase rate | **4.00** | 5.00 |

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 12.87 years and 13.27 years as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, 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** | | | |
|---|---|---|---|---|
| | **2020** | | 2019 | |
| | **1 Percent Increase** | **1 Percent Decrease** | 1 Percent Increase | 1 Percent Decrease |
| Discount rate | **(P119,526)** | **P139,386** | (P109,319) | P126,796 |
| Salary increase rate | **137,772** | **(118,874)** | 125,801 | (110,518) |

In 2020 and 2019, 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, 2020 and 2019.

## 29. Basic and Diluted Earnings Per Share

Basic and Diluted Earnings Per Share is computed as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Net income | **P2,756,511** | P1,671,788 | P1,053,039 |
| Less: Dividends on preferred shares | **49,180** | 49,180 | 49,180 |
| Net income available to common shares (a) | **P2,707,331** | P1,622,608 | P1,003,859 |
| 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) | **P9.46** | P5.67 | P3.51 |

## 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.

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, 2020** | **<1 Year** | **1 - 2 Years** | **>2 - 3 Years** | **>3 - 4 Years** | **>4 - 5 Years** | **Total** |
|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | |
| Philippine peso-denominated | **P166,667** | **P166,667** | **P166,666** | **P -** | **P -** | **P500,000** |
| Interest rate | **4.2105%** | **4.2105%** | **4.2105%** | **-** | **-** | **-** |
| | **P166,667** | **P166,667** | **P166,666** | **P -** | **P -** | **P500,000** |

| 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 | 8.3480% | 8.3480% | 8.3480% | 8.3480% | - | - |
| | P235,294 | P235,294 | P235,294 | P176,471 | P - | P882,353 |

Foreign Currency Risk

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

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

| | **December 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$178** | **P8,557** | US$26 | P1,336 |
| Trade and other receivables | **24** | **1,176** | 27 | 1,370 |
| Foreign currency-denominated monetary assets | **US$202** | **P9,733** | US$53 | P2,706 |

The Group reported net losses on foreign exchange amounting to P1,860, P806, and P525 in 2020, 2019 and 2018, 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, 2020** | **48.02** |
| December 31, 2019 | 50.64 |
| December 31, 2018 | 52.58 |

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, 2020** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P178)** | **(P125)** | **P178** | **P125** |
| Trade and other receivables | **(24)** | **(17)** | **24** | **17** |
| | **(P202)** | **(P142)** | **P202** | **P142** |

| | 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 |

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, 2020 | 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 | P2,819,574 | P2,819,574 | P2,819,574 | P - | P - | P - |
| Trade and other receivables - net | 953,698 | 953,698 | 953,698 | - | - | - |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | 26,404 | 26,404 | 26,404 | - | - | - |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | 493 | 493 | - | 493 | - | - |
| **Financial Liabilities** | | | | | | |
| Accounts payable and accrued expenses (excluding derivative liabilities* and deferred rent income**) | 5,145,038 | 5,145,038 | 5,145,038 | - | - | - |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | 218 | 218 | 218 | - | - | - |
| Long-term debt (including current maturities) | 496,264 | 537,154 | 186,169 | 179,055 | 171,930 | - |
| Lease Liabilities (including current portion) | 177,760 | 258,167 | 44,054 | 28,725 | 55,788 | 129,600 |

**Derivative liabilities amounted to P218 as at December 31, 2020.*

***Deferred rent income amounted to P892 as at December 31, 2020.*

| 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.*

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* | **2020** | 2019 |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | *5* | **P2,818,041** | P352,261 |
| Trade and other receivables - net | *6* | **953,698** | 1,551,469 |
| Derivative assets | *8* | **26,404** | 7,373 |
| Noncurrent receivables and deposits - net | *13* | **493** | 493 |
| | | **P3,798,636** | P1,911,596 |

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.

| | **2020** | | | | |
|---|---|---|---|---|---|
| | **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) | **P2,818,041** | **P -** | **P -** | **P -** | **P2,818,041** |
| Trade and other receivables | **953,698** | **-** | **690,536** | **-** | **1,644,234** |
| Derivative assets | **-** | **-** | **-** | **26,404** | **26,404** |
| Noncurrent receivables and deposits | **-** | **493** | **-** | **-** | **493** |

| | 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 |

The aging of receivables is as follows:

| December 31, 2020 | Trade | Non-trade | Amounts Owed by Related Parties | Total |
|---|---|---|---|---|
| Current | P569,555 | P58,258 | P36,655 | P664,468 |
| Past due: | | | | |
| 1 - 30 days | 60,128 | 13,531 | 7,428 | 81,087 |
| 31 - 60 days | 266 | 29,855 | 1,396 | 31,517 |
| 61 - 90 days | 730 | 5,400 | 1,385 | 7,515 |
| Over 90 days | 9,563 | 184,232 | 665,852 | 859,647 |
| | P640,242 | P291,276 | P712,716 | P1,644,234 |

| 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 |

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 P212,196 and P131,231 in 2020 and 2019, respectively (Notes 6 and 13).

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.

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 times and debt service cover ratio will not fall below 1.25 times. This loan defined total debt as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position. Following the above requirements, debt-to-equity ratio and debt service cover ratio are calculated as 1.00 and 9.49, respectively, as at December 31, 2019. The Parent Company complied with the above requirements until the settlement of such loan in 2020.

Moreover, the Parent Company is also required to comply with the capital requirements under the interest-bearing loan drawn from a local bank on December 28, 2020 (Note 16). The Parent Company has to ensure that its debt-to-equity ratio will not exceed 3.5 times and earnings before income taxes, depreciation, and amortization (EBITDA) to interest coverage ratio will not fall below 2.0 times. This loan defined total debt as all obligations evidenced by bonds, debentures, notes or other similar instruments while equity is total equity as shown in the consolidated statements of financial position. The Parent Company complied with the above requirements in 2020 with a debt-to-equity ratio of 0.55 as at December 31, 2020, and EBITDA to interest coverage ratio of 68.67 as at December 31, 2020.

The Parent Company is also required to comply with non-financial covenants under the said interest-bearing loan in which the Parent Company complied with in 2020.

## 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, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P2,819,574** | **P2,819,574** | P354,131 | P354,131 |
| Trade and other receivables - net | **953,698** | **953,698** | 1,551,469 | 1,551,469 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **26,404** | **26,404** | 7,373 | 7,373 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account) | **493** | **493** | 493 | 493 |
| **Financial Liabilities** | | | | |
| Notes payable | **-** | **-** | 1,519,000 | 1,519,000 |
| Accounts payable and accrued expenses (excluding derivative liabilities* and deferred rent income**) | **5,145,038** | **5,145,038** | 4,207,463 | 4,207,463 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **218** | **218** | 160 | 160 |
| Long-term debt (including current maturities) | **496,264** | **519,912** | 876,755 | 957,352 |
| Lease liabilities (including current portion) | **177,760** | **177,760** | 225,664 | 225,664 |

**Derivative liabilities amounted to P218 and P160 as at December 31, 2020 and 2019, respectively.*
***Deferred rent income amounted to P892 as at December 31, 2020.*

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 1.11% to 2.08% and 3.20% to 3.92% as at December 31, 2020 and 2019, 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$29,664 and US$10,174 as at December 31, 2020 and 2019, 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 P26,186 and P7,213 as at December 31, 2020 and 2019, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P88,294, P33,221, and (P10,250) in 2020, 2019 and 2018, respectively (Note 25).

Fair Value Changes on Derivatives

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

| | **2020** | 2019 |
|---|---|---|
| Balance at beginning of year | **P7,213** | P1,158 |
| Net change in fair value of non-accounting hedges | **88,294** | 33,221 |
| | **95,507** | 34,379 |
| Less fair value of settled instruments | **69,321** | 27,166 |
| Balance at end of year | **P26,186** | P7,213 |

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, 2020** | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P26,404** | **P26,404** | P - | P7,373 | P7,373 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **218** | **218** | - | 160 | 160 |

The Group has no financial instruments valued based on Level 1 and Level 3 as at December 31, 2020 and 2019. In 2020 and 2019, 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. *Redemption of Preferred Shares*

As approved by the BOD of GSMI on December 1, 2020, GSMI redeemed all 32,786,885 preferred shares held by SMC at a redemption price of P30.50 per share, plus all accumulated unpaid cash dividends, on January 4, 2021. The said preferred shares were not listed in the Philippine Stock Exchange.

b. *Declaration of Cash Dividends*

On March 10, 2021, the BOD declared cash dividends to all common shareholders of record as of March 25, 2021 amounting to P0.25 per common share. Cash dividends for common shares are payable on April 8, 2021.

## 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 2020, 2019, and 2018.

The following are the material pending legal proceedings to which the Company is a party to:

- 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 therefore, 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.

In a decision dated September 14, 2020, the SEC En Banc denied the Appeal Memorandum filed by Josefina for lack of merit.

- Tax Cases Pending with the Court of Tax Appeals (CTA)

*Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue*
*CTA Case Nos. 8953 and 8954 (Consolidated)*
*CTA - Third Division*

These cases pertain to GSMI's Claims for Refund with the BIR, in the amounts 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 January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on said ethyl alcohol.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence. The CTA admitted all of GSMI's evidence while the BIR's Formal Offer of Evidence and GSMI's Comment thereto are still under consideration of the CTA.

On July 28, 2020, the CTA rendered its decision and denied GSMI's Petition for Review. GSMI received the said decision on August 24, 2020, for which it timely filed a Motion for Reconsideration on the aforementioned decision on September 2, 2020, to which the Commissioner of Internal Revenue filed its Opposition.

The CTA rendered an Amended Decision dated February 1, 2021 wherein the Third Division of the Court of Tax Appeals partially granted GSMI's Motion for Reconsideration and ruled that GSMI is entitled to a refund of its erroneously and excessively paid excise taxes in the amount of P319,755 out of GSMI's original claim of P715,259.

On February 22, 2021, GSMI filed a Motion for Reconsideration to the Amended Decision, which is still pending any action from the CTA.

*Ginebra San Miguel Inc. vs. Commissioner of Internal Revenue*
*CTA Case No. 9059*
*CTA En Banc*

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 June 1, 2013 up to July 31, 2013.

The aforementioned assessment and collection arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2020, 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. However, the Motion for Reconsideration was denied by the CTA on June 9, 2020. On August 28, 2020, GSMI elevated the case to the CTA En Banc by way of a Petition for Review. On January 5, 2021, the CTA En Banc issued a Resolution giving due course to GSMI's Petition for Review and stating that the case is now deemed submitted for decision.

- 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. These cases are still pending with the said division of the SC.

*Ginebra San Miguel Inc. vs. Director General of the Intellectual Property Office*
*G.R. No. 196372*
*SC En Banc*

This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "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.

On January 4, 2019, the SC Third Division issued a Resolution ordering the consolidation of the previously consolidated cases (G.R. Nos. 216104, 210224 and 219632) with the En Banc case (G.R. No. 196372), stating that "considering that all these cases involve identical parties and raise interrelated issues which ultimately stemmed from the registration of trademark of [TDI] and [GSMI] before the [IPO]."

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court En Banc resolved to transfer the consolidated cases from the Third Division to the En Banc. Furthermore, the Supreme Court En Banc also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

*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 colorable 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.

On December 17, 2018, the SC consolidated this case with Ginebra San Miguel Inc. vs. Court of Appeals, Director General of the Intellectual Property Office, and Director of the Bureau of Trademarks (G.R. No. 196372).

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court En Banc resolved to transfer the consolidated cases from the Third Division to the En Banc. Furthermore, the Supreme Court En Banc also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

*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.

On December 17, 2018, the SC consolidated this case with Ginebra San Miguel Inc. vs. Court of Appeals, Director General of the Intellectual Property Office, and Director of the Bureau of Trademarks (G.R. No. 196372).

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court En Banc resolved to transfer the consolidated cases from the Third Division to the En Banc. Furthermore, the Supreme Court En Banc also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

b. *Commitments*

The outstanding purchase commitments of the Group amounted to US$96,748 (P4,646,113), US$67,217 (P3,403,550), and US$100,737 (P5,296,605) as at December 31, 2020, 2019 and 2018, respectively.

c. *Effect of COVID-19 in Business Operations*

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of COVID-19. To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020 and further extended until May 15, 2020. After the effectivity of ECQ, the National Capital Region has been placed in a Modified Enhanced Community Quarantine (MECQ) until May 30, 2020. On June 1, 2020, the aforesaid region has been placed under General Community Quarantine (GCQ), which aims to restore selected businesses while ensuring that proper health protocols are still in place. The ECQ, MECQ and GCQ involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

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. As a result of COVID-19 pandemic, the sales volume of the Group significantly dropped during the months of March and April due to the liquor ban imposed by the local and national government during ECQ. Yet, a significant recovery in the Group's revenues were recognized during the end of the second quarter and continuously picked up during the second half of the year after restrictions were gradually lifted to MECQ and GCQ on selected locations and key areas in the country.

Despite this challenging business environment, the Group does not foresee any going concern issue affecting its business operations.

d. *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 P1.60 and P1.70 in 2020 and 2019, respectively, for consolidated statements of financial position accounts; and average rates of P1.60, P1.68, and P1.61 in 2020, 2019 and 2018, respectively, for income and expense accounts.

**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

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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