SAN MIGUEL
BREWERY INC.

RISING TO THE CHALLENGE

Annual Report 2020

Mission and Vision

Building on our tradition of San Miguel beer business excellence, we transform markets with our world-class and most loved brands, excellent service, and passionate employees.

Guided by our philosophy of profit with honor, we deliver superior long-term value to our stakeholders. Through our brands and services, every occasion is a Drink to Life.

We are SMB:
We are Vibrant, Inspired, Bold and Entrepreneurial!

Up the Vibe! Drink to Life!

About the Cover

In a year like no other, San Miguel Brewery Inc. (SMB) is facing unprecedented uncertainties from the increase in excise tax for alcoholic beverages to a lingering global pandemic. Although the novel coronavirus outbreak is changing our economic landscape and upending the day-to-day lives of people, SMB is resilient as ever in overcoming these challenges by recalibrating operations and implementing cost containment measures. We are staying on the path to move forward by putting premium on the health and safety of the workforce, expanding SMB's product portfolio, and improving production efficiencies. We are continuing to adapt to the changing market conditions and leveraging on lessons learned. We are rising to the challenge and looking onward to 2021 with utmost hope and optimism.

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Message to Shareholders

San Miguel Brewery Inc. (SMB) stood on steady ground in the face of an extremely challenging year, brought about by the unprecedented coronavirus outbreak that led to the global economic recession. Despite subdued volumes, we remained and continued to be profitable by pivoting plans and programs to cater to the new market situation, adjusting operations to prioritize the health and safety of our employees, and protecting bottom-line growth by re-allocating resources to critical and relevant programs.

SMB's consolidated revenues in 2020 reached P107.9 billion. Volumes improved in the second half of the year backed by consumption-generating programs, consumer-directed initiatives, and prudent cost management. Operating income amounted to P24.5 billion. What stood out most during this tumultuous year was the resilience of our workforce coupled with the company's quick response to the extraordinary complexities of the environment, while remaining true to our core principles of excellence, integrity and malasakit, and continuing to deliver across-the-board value to our customers.

"What stood out most during this tumultuous year was the resilience of our workforce coupled with the company's quick response to the extraordinary complexities of the environment, while remaining true to our core principles of excellence, integrity and malasakit..."

We stepped into 2020 knowing full well that it was going to be an uphill climb given the substantial increase in excise tax for alcohol beverages. It did not help that 2020 got off to a rough start with our operations in parts of southern Luzon being hampered with the eruption of Taal Volcano. Shortly after, the country, and the rest of the world, stood still as the Covid-19 pandemic rapidly spread and gave rise to serious public health and safety concerns. Extending to be among the world's strictest and longest community quarantines, the imposition of protocols to arrest the spread of Covid-19 entailed periodic occurrences of localized restrictions, including

lockdowns, curfews and liquor bans led to the slowdown in the consumption of SMB products. The second half of the year yielded more encouraging results, turning in positive numbers, when restrictions gradually eased in low-risk areas to balance containing the epidemic and mitigating the impact to the economy.

Notwithstanding these hurdles, SMB's strong fundamentals backed by our dedicated workforce willed the company to achieve our goals. We tip our hats to all our hardworking beermen whose burning *malasakit* spirit steered the company through the long, drawn-out pandemic.

We know that the success of our organization lies in the strength of our workforce. This, in turn, greatly influenced our response to the pandemic. We carried out our operations cautiously by applying health protocols that were aligned with government requirements and implementing measures such as massive information drives, standard health checks, flexible work arrangements, work area modifications, and regular RT-PCR testing to ensure that our colleagues operate in safe work environments.

Our efforts within the company are mirrored by our various social development projects that focus on improving the quality of life of our partner communities. We are aware of the struggles of our countrymen and understand that whatever aid we share will somehow allay some of their burdens and fears. Hence, the company allocated funds to support efforts by the San Miguel Foundation, which distributed essential goods that benefited small communities, local government units, and medical institutions. In addition, beermen from all over the country spent time and shared resources to reach out and respond to their local communities' immediate needs.

In the area of sustainability, one of the initiatives that yielded significant gains for the company was our *Balik Bote* Program. This nationwide program became an avenue to actively engage our consumer base on the impact of our sustainable practices. It also contributed

to a more efficient supply chain supported by this container retrieval initiative of the company.

Before the year ended, we introduced to the market our newest offering, San Mig Free – a hip alternative drink that has full beer flavor without the alcohol. Fitting in perfectly into SMB's product portfolio and gaining traction for the new normal era, San Mig Free is the first non-alcoholic locally produced beer. It is a refreshing, near-beer beverage that allows drinkers to extend the quality time and fun drinking experience without being intoxicated.

In 2021, SMB will focus on prioritizing people safety and engagement, upholding patronage of SMB products, and fostering an agile and dynamic organization to ensure business survival and accelerate the company's recovery.

Together, we take pride in ourselves with the determination to rise above, in good and bad times. With our committed workforce and the utmost support of our business partners, shareholders and customers, we are assured that we will continue to accelerate recovery towards sustainable and profitable growth for SMB. We are made more resolute to prove that no challenge is insurmountable.

We are rising to the challenge. We are headstrong to brew better days.

Sama-Sama sa Laban!
Kahit Kailan, Walang Iwanan!

Ramon S. Ang
Chairman of the Board

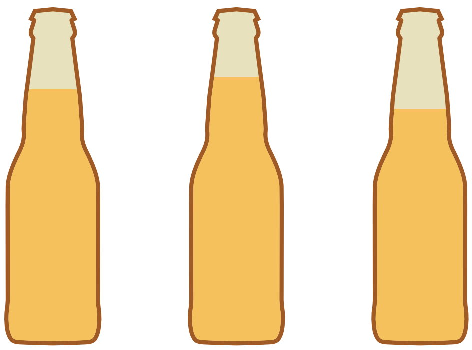
Roberto N. Huang
President

Financial Highlights

For the years 2018-2020 in Peso Millions

Revenue

129,249 142,272 107,928



2018 2019 2020

Operating Income

35,285 38,720 24,467

2018 2019 2020

Net Income

23,836 27,285 17,455

2018 2019 2020

Management's Discussion & Analysis

San Miguel Brewery Inc. (SMB) turned in a profitable year despite a protracted health crisis that plunged the global economy into one of the worst recessions in history. The coronavirus disease of 2019 (Covid-19), combined with a substantial increase in excise tax for alcoholic beverages, made for a particularly challenging operating climate in 2020.

SMB's consolidated revenues for the year reached P107.9 billion, 24.1% lower than 2019, while operating income totaled P24.5 billion.

Domestic Operations

In the first half of the year, SMB's sales volume slowed down with the implementation of a price increase to address the substantial hike in excise tax for alcoholic beverages. The decline was made steeper by the fallout from the Covid-19 pandemic. Despite these, SMB managed to post profit improvement through organizational agility and sound fiscal management.

In 2020, the country saw its gross domestic product slide to its lowest figure since the Second World War. Strict quarantine measures and the subsequent weakening of the local economy resulted in the decline of consolidated beer and non-alcoholic beverage volumes. Despite the uptick in performance in the second half of the year, with easing of restrictions and the resumption of beer selling, recovery was hampered by destructive typhoons and other natural calamities, all of which made for a rough year for the company.

With circumstances forcing the market into a new position, the company worked to develop new approaches in generating demand to cushion the impact of the pandemic.

The company drummed up creative consumption generating programs through digital platforms and various engagements for consumers.

Red Horse Beer used its standing as the country's No. 1 beer to communicate strength and courage through its "Assemble" and "Takam" contents, while exhibiting perseverance by staging the first ever virtual Pambansang Muziklaban.

Flagship brand **San Miguel Pale Pilsen** banked on the concept of "Walang Iwanan" to connect with consumers, while its "Side by Side" material is a nod to the brand's longevity, subtly celebrating its 130th anniversary.

San Mig Light encouraged its followers to look at the bright side of life amid the uncertainties with its "Light ng Buhay" material. At the same time, the brand kept audiences engaged through streaming events like "Mahaba-habang Usapan" and "12 Days of Holiday Cheers", all to motivate "e-numan" or virtual drinking sessions.

San Miguel Flavored Beer leaned on quirky thematic materials to connect to its young consumer base. Creative brand executions included limited release of thermochromic cans, and expansion of its product offerings through the launch of the Flavored Beer Lychee flavor in cans.

San Miguel Premium Beers **San Miguel Premium All-Malt**, **San Miguel Super Dry**, **Cerveza Negra**, and **Kirin Ichiban** sustained its presence through visibility in various digital platforms, adopting an agile approach to its marketing efforts.

Gold Eagle Beer relied on out-of-home executions to maintain brand visibility, complemented by its "Pugad Agila" below-the-line initiatives. **San Mig Zero**, on the other hand, paired its out-of-home materials with an aggressive online platform to diversify its consumer touch points.

SMB focused on sustainable solutions and viable avenues to ensure business continuity and promote its bevy of products. While brand campaigns continued to raise awareness, consumer activations centered around the theme "Inom Sweet Home", boosted by partnerships and product promotions over multiple selling platforms.

The brand's annual Oktoberfest beer and music festival was held online for the first time, with performances and celebrity interactions conducted over different virtual stages. To close out the challenging year, SMB ran content that touched an emotional chord with its "Pass Ako" and "Cheers" materials which aimed to give hope.

Although the volume of SMB's non-alcoholic beverage (NAB) line decreased, awareness, trade incentive, and product availability of **Cali, Magnolia Fruit Drink and Healthtea, San Mig Cola, and Agua Prima** persisted in select areas nationwide.

Ending 2020 on a high note, SMB launched **San Mig Free** to the local market, its first zero alcohol beer. Offering full beer flavor, without the alcohol, San Mig Free posted favorable results in its initial offering, appealing to health-conscious beer aficionados.

Challenges in product movement prompted SMB to target specific selling channels to kickstart volume recovery. Modified strategies covered physical stores, as well as telesales and online selling to be fulfilled by accredited order fulfillment partners to ensure availability in key channels in both traditional and e-premise formats. Innovative trade activations and delivery operations were also utilized, while strategic online partnerships supplemented selling and distribution.

Responding to the effects of the pandemic, SMB prioritized streamlining operational capability to address production and supply disruptions. This included the identification, assessment, and improvement of critical equipment and systems in all production facilities to sustain quality and enhance productivity. Quality was likewise strengthened in all breweries with the completed documentation and training requirements for Food Safety System Compliance.

SMB's supply chain was managed with the adoption of new delivery schemes to optimize inventory of full goods and raw materials. Meanwhile, the "Balik Bote" campaign, which has been implemented nationwide, did not only become a part of the company's sustainability initiatives, but it also supported the container retrieval efforts of the company.

Another milestone for SMB is the complete upgrade of the production facility in Santa Rosa into a full-fledged brewery.

Capacity enhancement was also undertaken to better serve markets in South Luzon.

On the back-end, SMB exercised management and organizational flexibility by recalibrating targets, improving planning processes, and strengthening innovation capability. Managing resources was also critical to control costs and ensure liquidity to prioritize programs relevant to volume generation and business continuity.

SMB focused on developing digital tools and solutions, enhancing systems and connectivity, and fortifying data security to support operations. Emergency response mechanisms were likewise improved to mitigate business risks and vulnerabilities. Employee engagement programs adopted the “new normal” formats which resulted in migration to various online platforms.

To protect its workforce and operations from the threats of Covid-19, SMB implemented stringent health and safety protocols and measures. Workspaces were altered to meet specification guidelines outlined by government authorities. Employees, including the personnel of SMB’s independent third-party service providers, were subjected to regular RT-PCR testing and provided with ample health kits and personal protective equipment.

The company maintained its status as a producer of world-class brews receiving multiple citations for product excellence from the international award-giving body Monde Selection.

SMB brands San Miguel Pale Pilsen, Cerveza Negra, San Miguel Premium All-Malt, and Red Horse Beer each claimed Monde Selection Gold, while San Mig Light, San Miguel Super Dry, and San Mig Zero earned Monde Selection Silver.

SMB’s production facilities were likewise recognized for its social and environmental efforts. Santa Rosa Brewery was awarded the Lion’s Award as one of its host city’s Covid-19 Partners and Heroes. Polo Brewery in Valenzuela received merits from the Department of Environment and Natural Resources for its consistent compliance with environmental requirements.

International Operations

Despite the pandemic posing unprecedented challenges to economies all over the world, the operating units of the international operations under San Miguel Brewing International Limited (SMBIL) registered growth with many managing to post profit improvements. The gains were achieved by capitalizing on the shift to home consumption as well as exercising prudent cost management.

Across markets, particularly in the on-trade channel, beer sales were adversely affected by varying levels of restrictions especially during the first semester of the year. While volumes for the first six months of 2020 were significantly down, some recovery was noted in the second half of the year as volume decline softened to a single-digit rate.

With the shortfall in volumes, total operating income was lower compared to the previous year, largely weighed down by operations in Indonesia and Thailand. Volume and profit suffered in Indonesia as the total beer industry struggled amid strict government regulations in response to the pandemic. Performance in Thailand, on the other hand, was affected due to high dependence on the on-premise channel and tourist areas. Meanwhile, the Hong Kong, South China, Vietnam, and Exports operations succeeded in ending the year with profits better than 2019.

Exports continued its volume and profit uptrend in 2020 in spite of the global crisis. Major markets in the United Arab Emirates and South Korea delivered volume growth by refocusing strategy and capitalizing on the resilience of off-premise channels.

Qatar, on the other hand, recorded strong volume recovery following a decline due to the tax revisions implemented in 2019. Volume expansion was further supported by growth in other markets as well as higher ship chandler sales. Despite market challenges, Export operations' operating income for the year grew on the back of favorable volumes and controlled fixed costs.

The domestic volume of San Miguel Brewery Hong Kong Limited (SMBHK), SMBIL's operating subsidiary in **Hong Kong**, was at par with the previous year, outperforming the industry which saw total volume drop for 2020. The company offset the impact on on-premise channel by growing volume in modern off-trade and wholesaler channels. SMBHK's exports sales also increased, bringing full-year production volumes higher than 2019. In December, the company rolled out its new wheat beer offering, San Miguel Cerveza Blanca, in retail chains Circle K and Aeon, as well as selected on-premise outlets, eliciting positive responses from initially-penetrated stores.

SMBHK participated in the Hong Kong Government's Employment Support Scheme to retain employees (including contractual workers) whose services may otherwise have been terminated due to the pandemic. SMBHK operations posted strong profit recovery in 2020, driven by an improvement in total volumes and rationalization in spending, further supported by the government's financial aid.

Consolidated **South China** operations posted profit improvement largely on account of higher export volumes and managed fixed costs. After the government mandated a temporary shutdown of all outlets, factories, including San Miguel's brewery in Foshan, and shipping ports in South China in early-2020, the South China operations managed to recover and fulfill higher export volume requirements. Volume recovery was driven by higher sales of the San Miguel brand to wholesalers as well as new market penetration in Fujian. Meanwhile, Dragon volume also grew in the second half of the year supported by higher sales of Dragon Qingchun and the introduction of the new Dragon Legend 330ml bottle in mid-June. Volumes bounced back in the second semester as businesses started to resume operations, while full-year domestic sales were behind compared to 2019.

Guangzhou San Miguel Brewery Co., Ltd. (GSMB) ceased operations following the approval by its shareholders of the dissolution of the company upon the expiry of its business term in November 2020, in accordance with its articles of association and the joint venture contract for GSMB. As a result, the selling and distribution of San Miguel brands were undertaken by San Miguel (Guangdong) Brewery Co., Ltd.

In **North China**, the shareholders of San Miguel (Baoding) Brewery Co., Ltd. approved the cessation of operations and dissolution of the company in March 2020. The decision was reached owing to the company's sustained losses against a tough competitive environment and proved beneficial as SMBIL's overall profitability improved since the closure.

Thailand operations' profit and volume performance declined in 2020 as sales decreased with the restrictions on tourism-related activities in major destinations, particularly territories where the San Miguel brand is strong. Prolonged closures of most on-premise outlets accounted for the majority of volume losses in the market, which was crippled due to government-imposed restrictions, including a nationwide alcohol ban from April to June.

Towards the end of 2020, less than half of the total on-trade channels had re-opened while tourist arrivals remain restricted. The tight market resulted in the decline of the total beer industry, particularly brands under the premium segment. The positive performance of San Mig Zero and the recently-launched San Miguel Cerveza Blanca provided incremental volumes for the Thailand operations as it managed to bring these brands to a significant number of outlets in 2020 despite the pandemic.

Indonesia operations recorded subdued volume and profit due to the global crisis. High Covid-19 positivity rates prompted a declaration of a nationwide public health emergency, which was followed by large-scale quarantine measures in Jakarta, Banten, Ambon, and key areas in West Java. As a result, the total beer industry dropped as numerous outlets were closed for the majority of the year. However, there were signs of beer industry recovery during the fourth quarter of 2020 as the industry adjusted to the new normal with the volume slowly improving.

Vietnam operations saw its total production volume grow in 2020 resulting from higher export volume, which compensated for the slight decline in domestic sales. The lower volume of San Miguel brands in on-premise channels and tourist-dependent areas of Danang and Nha Trang was partly offset by growth in modern trade off-premise outlets.

Incremental volume was also achieved through the recent launch of San Miguel Lychee Flavored Beer, as well as increased sales of economy brand W1N Bia. Despite the pandemic, the Vietnam operations further improved its profit for the year.

Marketing Highlights

Up For The Task

Building Hope Through Resilient Brands

San Miguel Brewery Inc. (SMB) is well known for producing world-class products that have established deep relationships with people all over. This connection teetering on kinship is something that the company prides itself on, having shared 130 years of memorable experiences.

While many countries have taken stringent measures to slow down the spread of the coronavirus outbreak, dealing with the unforeseen challenges has also taken a significant toll on SMB. To this end, the company implemented numerous campaigns and responded nimbly to changes in the operating environment.

With renewed vigor and armed with fresh motivation to enlighten and inspire hope, SMB took on the challenge to rise to the occasion and contribute to uplifting a world that was in dire need of hope and optimism.

Resilience is a word often used to describe those who endure. SMB embraced this mantra, held on to its values and principles, and shared it with those looking for stability amid a torrent of uncertainty.

SMB's flagship brand **San Miguel Pale Pilsen** (SMPP) entered the year with strong momentum after posting record volumes and earning high patronage rates in 2019. The brand's "Side by Side" campaign with its tagline "Kahit Kailan, Walang Iwanan" resonated with the market to earn a bronze award from the prestigious New York Festivals Advertising Awards for excellence in public relations.

As the country plunged into the pandemic, the line "Walang Iwanan" became more relevant than ever as it embodies the efforts of SMB and the whole San Miguel group to help families and communities endure the effects of the global health crisis.

The high patronage was credited to the brand's inspired efforts to reinforce the "Walang Iwanan" message through a campaign honoring "frontliners".

When the Philippine Basketball Association moved to enter a "bubble" to conclude the interrupted basketball season, the brand developed light-hearted materials that featured the San Miguel Beermen sporting the team's retro-inspired jerseys. The video appealed to basketball-devoted Filipinos, reaching a total of 1.3 million views over multiple platforms, generating 6.6 million organic reach and attracting publicity values estimated at Php 3.5 million.

San Miguel Beer, by and large, implemented the Inom Sweet Home 5+1 Promo in sari-sari stores nationwide, to help revive beer consumption and promote responsible drinking.

The challenging year did not deter **Red Horse Beer** (RHB) from maintaining its market leadership in 2020. While volumes softened due to the Covid-19 fallout, the brand managed to sustain its market share and scores with its pre-pandemic figures.

This unique circumstance opened up an opportunity for the brand to make music history when it capped off the 2019 Pambansang Muziklaban Finals with the first-ever "Virtual Slaman". Showcased exclusively over its online platforms, RHB's Pambansang Muziklaban saw the crowning of the new champions of Pinoy rock. For LAKAS (heavy rock category), We the Dying from Iloilo City bagged the top prize while Pikaso and the Riots from Batangas took home the trophy for AKLAS (alternative rock genre). Aside from showcasing the finalists, viewers also enjoyed the performances from some of the top rock bands in the country.

The "Virtual Slaman" provided a new and exhilarating online experience where rockheads participated in the event in an exclusive Zoom room and hung out with other slameros.

Select audiences were awarded as Slameros of the Night and won various RHB merchandise. Rakistas were also able to vote for their favorite finalists to win the Repa's Choice Award where bands Pahina and Molay, both from Metro Manila, garnered the most "beer votes" and took home the award.

To keep up with the Muziklaban tradition, all finalist bands received mentoring sessions from Red Horse Beer evangelist bands through the "Building a Rakista" project. Similarly held via online video conference platforms, the finalists received performance makeovers that helped fine-tune their performances on stage and sharpen their rock image.

The engagement exceeded its target viewership by 55% and, more importantly, it resulted in better consumer disposition towards RHB.

San Mig Light's (SML) 2020 is a year of taking on the challenge in lightening up the day-to-day customary interests and activities of its patrons. By providing information and staging an avenue for conversations that celebrate companionship, the brand was able to connect with its target market through multiple digital platforms. As a result, SML achieved the highest score among the alcoholic beverages in the country.

In March 2020, SML pivoted its talk series to champion conversations made relevant by the pandemic. The platform delved deep into relevant issues like the risks of too much social media exposure; what led to cancel culture; how to unite on social issues during quarantine; and how to preserve mental health while in isolation. The 2020 campaign was able to post record-high engagement rates since the series began in 2018.

Over the holidays, SML mounted its first-ever on-demand DJ event made available for streaming on the brand's YouTube channel. The SML 12 Days of Holiday Cheers (12DHC) kicked off on December 19 to coincide with the Yuletide break. For 12 straight days, SML aired music from a wide range of club music genres featuring an all-star cast of SML Spin-Off DJs.

The SML 12DHC surpassed viewership targets and influenced consumption by 47%.

San Miguel Flavored Beer (SMFB) found its market impeded as entry-point drinkers were forced to stay at home throughout the quarantine period. However, with its equity set, the brand was still able to communicate the message of finding the sweet side of everyday life despite the limitations. SMFB's campaigns managed to gain improvements in its brand affinity scores and maintain engagement with entry-point drinkers through its "Make Life Sweeeet" slogan and exciting product innovations.

The very #sweeeet "Pangako V-Day" spot kicked off the brand's 2020 campaign in February.

SMFB then released a series of friendship-centric short videos that coincided with International Friendship Day last August. During the same month, the brand released a limited edition thermochromic can packaging, to the delight of its patrons. It, likewise, saw the launch of the Lychee flavor in cans. Both innovations were made available to customers in off-premise channels.

These efforts helped SMFB secure its strong position in the entry-point drinker segment and places the brand in a position to be optimistic for 2021 and onwards.

SMB took the initiative to expand its portfolio to adapt to the changing times. Last December 2020, the company launched **San Mig Free**, a brew that offers consumers a unique beer drinking experience without the alcohol.

The brand is a go-to brew for regular beer drinkers who wish to ease up on the alcohol during certain days of the week. San Mig Free also fits the profile of consumers who want to explore and try something new, or those who simply crave a fresh beer taste any time of the day.

San Mig Free is first made available in supermarkets and convenience stores, and will soon be available in sari-sari stores nationwide.

In **Vietnam**, San Miguel Flavored Beer Lychee was launched in January 2020 to capitalize on the growing popularity of the flavored beer segment in the country. The smooth, easy-to-drink brew offers a distinct aroma and sweet, delicate taste of lychee adding a refreshing fruity twist to beer.

Marketed as a seasonable drink with 3% alcohol by volume, SMFB Lychee is available in bottle and can packaging formats.

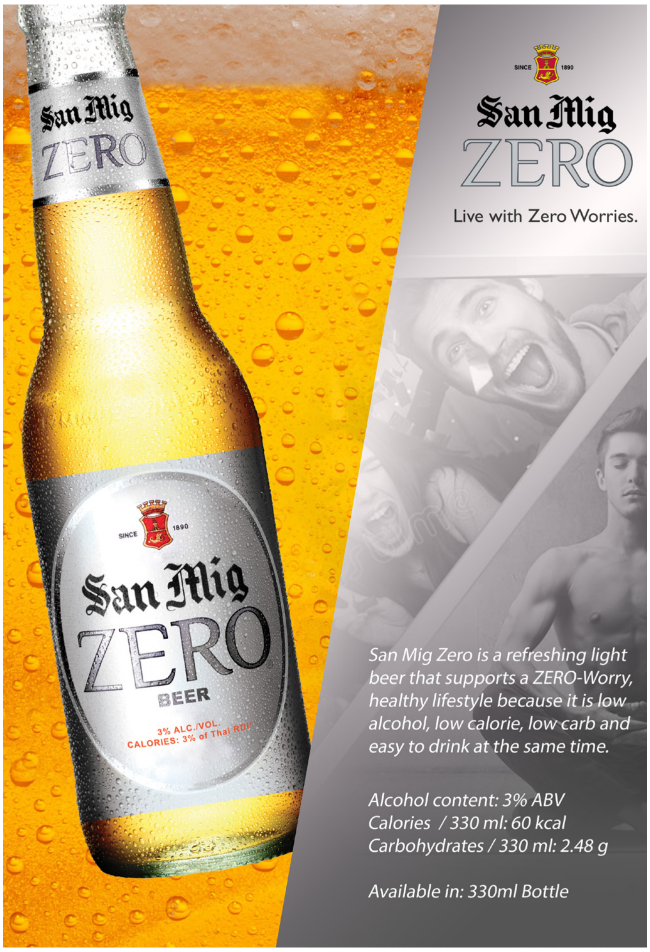
To prop up awareness and interest for the brand, beer sampling activities and merchandising campaigns were implemented in the on- and off-trade channels as well as social media advertising throughout the year. A "Sweet Cheers" tour featuring a mobile roadshow team, consumer games and promos, and merchandising blitz was also conducted in targeted outlets to encourage trial and further promote the brand.

Despite the pandemic, the launch was largely successful in Vietnam, with the brand garnering positive consumer acceptance. The brand is now available in retail chains such as Skymart, GS 25, Citimart, Family Mart, 7-Eleven, Circle K, An Nam Gourmet, King Food, Coop Xtra, Saigon HD, Aeon, and Lotte as well as selected on-premise outlets.

In **Thailand**, San Mig Zero was introduced in May in response to the rising health and wellness trend in the country. A refreshing light beer that supports a ZERO-worry and healthy lifestyle, the brew is easy to drink with only 3% alcohol and low in carb content.

To promote awareness and encourage trial, consumer price-off and gift set promos were implemented in the off-trade while a "Worry-Free Nights" campaign was carried out in selected premium bars, featuring consumer games and promos as well as product-sampling activities. Advertising via Facebook and LED billboards were also released to create excitement for the brand.

San Mig Zero is available in retail chains such as LOTUS, Big-C, MAKRO, TOPS, The Mall, Food Land, Villa, Fuji, 7-Eleven, and Central FamilyMart.



In **Saudi Arabia**, an addition to the canned variant which has been exported to the country was the San Miguel Non-Alcoholic Beer in 330ml bottles. San Miguel Non-Alcoholic Beer is an all-malt pale golden non-alcoholic beer characterized by sweetish, hoppy notes and hints of floral aroma.

The new packaging format was introduced to further grow the product in Saudi Arabia's non-alcoholic beer market as well as provide opportunities to expand distribution and reach particularly in the modern trade-off channel. Launch activities were focused on listing the product in new packaging format into retail chains supported by point-of-sale materials to create consumer awareness and encourage trial.

An addition to the international group's portfolio is **San Miguel Cerveza Blanca,** which was rolled out in the fourth quarter of 2020. The newest wheat beer offering perfectly balances a harmony of spicy, smokey, and fruity flavors, with a hint of citrus, and touch of mint. With its 5.4% alcohol and balanced by its lively effervescent, fruity-spicy taste, San Miguel Cerveza Blanca is a refreshing and enjoyable drink.

The new brand was rolled out in Thailand targeting on- and off-trade channels in November, supported by a launch of merchandising materials, Facebook and LED billboard advertising as well as a sales incentive program for participating outlets. The brand was also introduced in HongKong, particularly in retail chains Circle K and Aeon, selected on-premise outlets, as well as on line stores in December. To generate buzz for the brand, an online and PR campaign was implemented together with sampling and visibility activities.

Coming off from generally positive consumer and trade feedback in both markets, the San Miguel Cerveza Blanca is scheduled to be launched to a greater number of outlets and retail chains and is slated to launch in Vietnam and targeted export markets in 2021.

Board of Directors

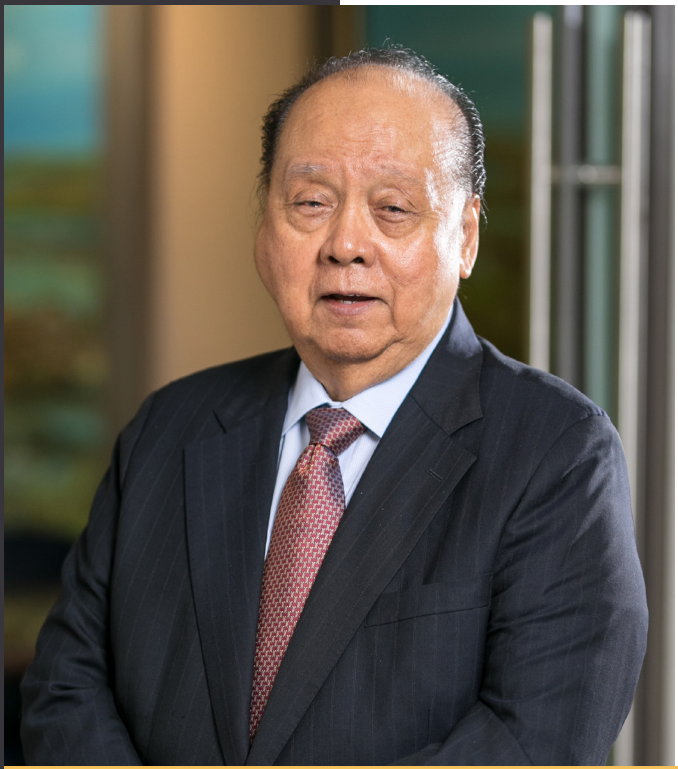
Ramon S. Ang, 67, Filipino, has served as Chairman of the Company since July 26, 2007 and is the Chairman of the Company's Executive Committee. He also holds, among others, the following positions: Vice Chairman, President and Chief Operating Officer of San Miguel Corporation; Director, President and Chief Executive Officer of Top Frontier Investment Holdings, Inc., San Miguel Food and Beverage, Inc., Petron Corporation and Northern Cement Corporation; Director and President of Ginebra San Miguel Inc. and San Miguel Northern Cement, Inc.; Chairman and Chief Executive Officer and President and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., San Miguel Energy Corporation and Privado Holdings Corp.; and Chairman of San Miguel Brewery Hong Kong Limited (Hong Kong), Eagle Cement Corporation, Petron Malaysia Refining & Marketing Berhad (Malaysia), SEA Refinery Corporation, San Miguel Foods, Inc., San Miguel Mills, Inc., Magnolia, Inc., San Miguel Super Coffeemix Co., Inc., The Purefoods-Hormel Company, Inc., San Miguel Yamamura Packaging Corporation, Anchor Insurance Brokerage Corporation, Clariden Holdings Inc., Philippine Diamond Hotel & Resort, Inc., and Manila North Harbour Port, Inc. He is also the sole shareholder and Director of Master Year Limited. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC during the last five (5) years and was previously the Company's President (2007- 2009). He was also a director/officer in other publicly listed companies outside of the San Miguel Group, including President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; Vice Chairman of Manila Electric Company; and Chairman of Liberty Telecom Holdings, Inc. and Cyber Bay Corporation. Mr. Ang holds a Bachelor of Science Degree in Mechanical Engineering from Far Eastern University and a Doctorate in Business Engineering, Honoris Causa, from the same university.

Roberto N. Huang, 72, Filipino, has served as Director since October 8, 2007 and President of the Company since April 30, 2009; and is a Member of the Company's Executive Committee. He is also a Director of San Miguel Brewing International Limited, San Miguel Brewery Hong Kong Limited (Hong Kong) and San Miguel Malaysia Pte Ltd. (Labuan, Malaysia); Director and Chief Operating Officer – Beer of San Miguel Food and Beverage, Inc.; and Chairman and President of Iconic Beverages, Inc., Brewery Properties Inc. and Brewery Landholdings, Inc. He also served as General Manager of the Company (2007-2009). Mr. Huang holds a Bachelor of Science Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University. He also attended the Nagoya International Training Center, Japan International Cooperation Agency Grant for Metal Works Engineering and Numerical Control Machines course.

Ferdinand K. Constantino, 69, Filipino, has served as Director of the Company since July 26, 2007 and is the Chairman of the Company's Executive Compensation Committee and a Member of its Audit Committee and Governance and Nomination Committee. He also holds, among others, the following positions: Group Chief Finance Officer and Treasurer of San Miguel Corporation; Director and Treasurer of San Miguel Food and Beverage, Inc. and San Miguel Equity Investments Inc.; Director of Top Frontier Investment Holdings, Inc., Petron Malaysia Refining & Marketing Berhad (Malaysia), San Miguel Yamamura Packaging Corporation, SMC Skyway Corporation, Clariden Holdings, Inc, San Miguel Holdings Corp., Northern Cement Corporation, Petron Finance (Labuan) Limited (Labuan, Malaysia), San Miguel Malaysia Pte Ltd (Labuan, Malaysia), San Miguel Pure Foods International, Ltd. and San Miguel Aerocity, Inc.; Director and Vice Chairman of SMC Global Power Holdings Corp.; Director and President of Anchor Insurance Brokerage Corporation; Chairman of SMC Stock Transfer Services Corporation, San Miguel Foundation, Inc. and San Miguel Integrated Logistics Services, Inc.; and Director and Chief Finance Officer of San Miguel Northern Cement, Inc. He is also advisor to Bank of Commerce, Ginebra San Miguel, Inc. and San Miguel Properties, Inc. Mr. Constantino is also a former Chief Finance Officer and Treasurer of the Company (2007-2009); and a former Director of San Miguel Corporation, Ginebra San Miguel, Inc. and San Miguel Foods, Inc. Mr. Constantino has held directorships in various domestic and international subsidiaries of San Miguel Corporation during the last five (5) years and was also a director in other publicly listed companies outside of the San Miguel Group, including Director of PAL Holdings, Inc. and Philippine Airlines, Inc. Mr. Constantino holds a Bachelor of Arts Degree in Economics from the University of the Philippines and completed academic requirements for a Master's Degree in Economics from the University of the Philippines.

Keisuke Nishimura, 64, Japanese, has served as Director of the Company since April 30, 2009. He is the Representative Director of the Board and Senior Executive Vice President (Business Alliance and Investment Strategy, Overseas Business, Global Craft Beer) of Kirin Holdings Company, Limited; Director and Vice Chairman of Myanmar Brewery Limited (Myanmar); and Director of Lion Pty Ltd (Australia) and China Resources Kirin Beverages (Greater China) Company, Limited. He was previously Senior Executive Officer of Kirin Company, Limited (2017-2019); Senior Director of the Board, Representative Director (2015-2017), Managing Director of the Board (2014-2015) and Director (2012-2014) of Kirin Holdings Company, Limited; and Vice Chairman of Myanmar Brewery Limited (2015-2016). He also served in the Kirin group of companies in various other capacities, and is a former Executive Vice President of the Company (2009-2011). Mr. Nishimura holds a Bachelor's Degree in Business from Yokohama National University and a Master's Degree in Business from the University of Washington.

Carmelo L. Santiago, 78, Filipino, has served as Independent Director of the Company since February 25, 2010. He was also an Independent Director of the Company from October 8, 2007 to April 30, 2009. He is the Chairman of the Company's Audit Committee and a Member of its Executive Committee, Executive Compensation Committee and Governance and Nomination Committee. He is also an Independent Director of San Miguel Food and Beverage, Inc.; an Independent Non-executive Director of San Miguel Brewery Hong Kong Limited (Hong Kong); and the Chairman of Aurora Pacific Economic Zone Freeport Authority. He is a former former Director of Terbo Concept, Inc. (2005-2020) and of San Miguel Corporation (2008-2013), Ginebra San Miguel, Inc. (2010-2012), Anchor Insurance Brokerage Corporation and Liberty Telecoms Holdings, Inc. Mr. Santiago is the founder and owner of several branches of Melo's Restaurant and founder of Wagyu Restaurant. Mr. Santiago holds a Bachelor's Degree in Business Administration from the University of the East.



Alonzo Q. Ancheta, 88, Filipino, has served as an Independent Director of the Company since April 30, 2009 and is the Chairman of the Company's Governance and Nomination Committee and a Member of its Audit Committee. Atty. Ancheta is an Independent Director of PTFC Redevelopment Corporation and San Miguel Brewery Hong Kong Limited (Hong Kong); President of Zobella & Co. (A.Q. Ancheta and Partners): Trademark & Patent Attorneys; Co-Founding Partner/Senior Adviser of Quasha Ancheta Peña & Nolasco Law Offices; Chairman and President of Ogilvy & Mather (Philippines), Inc.; President of Growe Investments Ltd.; and a Member of the Board of Trustees of St. Luke's Medical Center. He is also a member of various organizations, including Intellectual Property Association of the Philippines (Council Adviser, 1988-present), Philippine Bar Association, Legal Management Council of the Philippines, Asian Patent Attorneys Association, International Trademark Association, LAWASIA (Vice President International, 2017-present), Licensing Executives Society International, ASEAN Law Association (Philippine National Committee member, 1986-2018 and Vice Chair, 2001-2018), ASEAN Intellectual Property Association, American Chamber of Commerce of the Philippines, Canadian Chamber of Commerce of the Philippines, Philippine American Guardian Association, Philippine-Japan Economic Committee, Philippines-Japan Society, Inc., Rotary Club of Marikina, Jaycees International (Senator) and For Love of Mother Earth, Inc. Atty. Ancheta holds a Bachelor of Arts Degree and Bachelor of Laws Degree from The University of Manila.

Carlos Antonio M. Berba, 56, Filipino, has served as Director of the Company since August 10, 2010. He is the Managing Director of San Miguel Brewing International Limited since January 1, 2008. He is also the Deputy Chairman of San Miguel Brewery Hong Kong Limited (Hong Kong); a Commissioner of PT Delta Djakarta Tbk (Indonesia); and Chairman/ Director of other subsidiaries of San Miguel Brewing International Limited, including San Miguel Beer (Thailand) Limited, San Miguel Holdings (Thailand) Limited, and San Miguel Marketing (Thailand) Limited. Mr. Berba holds a Bachelor of Science Degree in Electrical Engineering from the University of the Philippines, a Master's Degree in Japanese Business Studies from the Japan America Institute of Management Science & Chaminade University of Honolulu, and a Master's Degree in Business Administration from the Wharton School, University of Pennsylvania.

Toshiya Miyoshi, 62, Japanese, has served as Director of the Company since March 27, 2015. He is the Director of the Board, Senior Executive Officer of Kirin Holdings Company, Limited. He was also the Senior Executive Officer (2015-2019), Senior Executive Officer, General Manager of Personnel Department (2014-2015) and Executive Officer, General Manager of Personnel Department (2013-2014) of Kirin Company, Limited; and Senior Executive Officer, Director of Group Personnel and General Affairs Department (2014-2015) and Executive Officer, Director of Group Personnel and General Affairs Department (2013-2014) of Kirin Holdings Company, Limited. Mr. Miyoshi also served the Kirin group of companies in various other capacities. Mr. Miyoshi holds a Bachelor's Degree in Commerce from Waseda University, Japan.

Daniel L. Henares, 63, Filipino, has served as Director of the Company since May 31, 2016. He is consultant to San Miguel Corporation (since 2014), serving as the Assistant Team Manager of the Company's San Miguel Beer team, and a Director of Henlich Development Corporation (since 1995). He was also a consultant for business development of corporate accounts for cargo and passenger business in Philippine Airlines, Inc. (2013-2014). Mr. Henares holds a Bachelor of Laws Degree from Ateneo de Manila University and a Bachelor of Arts Degree in Political Science from De la Salle University.

Tomoki Yamauchi, 53, Japanese, has served as Director and as Executive Financial Advisor of the Company since October 1, 2017. He is a member of the Executive Committee and Audit Committee of the Company. He is also a Director of San Miguel Brewing International Limited, San Miguel Brewery Hong Kong Limited (Hong Kong) and San Miguel Beer (Thailand) Limited. He was previously the Senior Manager of Accounting Department of Kirin Company, Limited; Senior Manager of Planning Department of Kirin Beverage Company, Limited (2016-September 2017); Senior Manager of Management Planning Department of Kirin Company, Limited (2013-2016); and Senior Manager of Accounting Unit Group Finance of Kirin Holdings Company, Limited (2013 – 2016). Mr. Yamauchi graduated from Keio University with a Bachelor's Degree in Economics in 1992. He also completed a program for Management Development in Harvard Business School in 2004.

Kenji Uchiyama, 56, Japanese, has served as Director and as Executive Vice President of the Company since March 29, 2018. He is a member of the Executive Committee, Executive Compensation Committee and Audit Committee of the Company. He is also a Director of San Miguel Brewing International Limited, San Miguel Brewery Hong Kong, Limited (Hong Kong), Iconic Beverages, Inc., Brewery Properties Inc., Brewery Landholdings, Inc., San Miguel Holdings (Thailand) and San Miguel Beer (Thailand) Limited. Mr. Uchiyama also held the following positions in the Kirin group: Executive Officer (2017) and General Manager of Corporate Planning Department (2014-2017) of Kirin Brewery Company, Limited; Director of Diageo Kirin Company, Limited, Heineken Kirin Company, Limited, Eishogen Company, Limited, Kirin Distillery Company, Limited and The Brooklyn Brewery Corporation; President and Chief Executive Officer of The Brooklyn Brewery Japan Company, Limited; and Deputy General Manager of Sales Department, in charge of Off-Premise Sales of Kirin Beer Marketing Company, Limited (2013-2014). Mr. Uchiyama graduated from Keio University with a Bachelor's Degree in Social Psychology in 1987.

Corporate Governance

San Miguel Brewery Inc. recognizes the importance of good governance in strengthening and maintaining confidence in the Company, which results in contributing to, and sustaining, growth and value for its shareholders and other stakeholders. It remains committed to conducting its business affairs in an accountable, fair and transparent manner and in adhering to the highest ethical standards in all its business dealings.

The Company's corporate governance work and compliance in 2020 are described in this section.

Shareholder and Stakeholder Relations

The Company observes corporate governance practices which promote shareholder and stakeholder rights.

Voting and Shareholder Meetings

Each share in the name of the shareholder entitles such shareholder to one vote which may be exercised in person or by proxy at shareholders' meetings, including the Annual Stockholders' Meeting (ASM). The Company's disclosure on the agenda, date, time and place of the ASM meeting, and the deadlines for the submission and validation of proxies is submitted to the Securities and Exchange Commission (SEC) and the Philippine Dealing & Exchange Corp. (PDEX), as well as published in the Company's and PDEx's websites, more than one month prior to the ASM. Under its by-laws, the Company's ASM shall be held on the last Tuesday of May. However, in 2020, in view of the Covid-19 situation in the country, the Company postponed its 2020 ASM to June, 18, 2020 and did not hold a physical meeting. Instead, the Company conducted its first ASM by remote communication via livestreaming. The Company also adopted the alternative mode for the distribution of notices and Definitive Information Statement pursuant to SEC rules, and published the same on May 27 and 28, 2020.

Shareholders have the right to elect, remove and replace directors as well as vote on certain corporate acts in accordance with the Revised Corporation Code of the Philippines (Revised Corporation Code). Matters submitted for the approval of the stockholders at the 2020 ASM require the affirmative vote of stockholders representing at least a majority of the outstanding capital stock present or represented at the meeting, except for the election directors. In the election of directors, the nominees with the greatest number of votes using the cumulative manner of voting are elected as directors. There being the same number of nominees as there are seats in the board, all the eleven nominees were elected.

With the 2020 ASM conducted by remote communication, shareholders voted through ballots submitted to, and verified by, the Company, or through the Chairman of the meeting appointed as their proxy in proxies submitted to, and verified by, the Company.

Information and Investor Relations

The Company keeps an open, reliable and relevant communication with the investing community and its stakeholders on its financials and performance, as well as significant developments in its business and governance, through timely disclosures, announcements and periodic reports filed with the SEC and PDEx, regular quarterly online briefings with investment and financial analysts in view of the Covid-19 situation, ASMs, the Company's website, www.sanmiguelbrewery.com.ph, emails and telephone calls. The regular online briefings and meetings with investment and financial analysts are held through the Investor Relations of the San Miguel Group.

Dividend Policy

Under the dividend policy of the Company, shareholders will receive annual cash dividends equivalent to 100% of the prior year's recurring net income calculated without respect to extraordinary events that are expected to recur, based on the recommendation by the Board of Directors. Such recommendation will take into consideration factors such as the implementation of business plans, debt service requirements, operating expenses, budgets, funding for new investments, acquisitions, appropriate reserves and working capital, among others, and shall be subject to the applicable provisions of the Revised Corporation Code. The Company paid out cash dividends of P1.00 per share in 2020.

Pre-emptive rights

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

Business Partners, Creditors and Customers

The Company's business partners, creditors and customers play important roles in the creation and growth of value, stability and long-term competitiveness of the Company's business. The Company honors its obligations to its business partners and creditors as well as its commitment to provide products and services which delight and inspire loyalty in its customers.

Disclosure and Transparency

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

Ownership Structure

The top 20 common shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in its Definitive Information Statement distributed to shareholders by publication prior to the ASM in accordance with the 2020 SEC rules on alternative distribution of notices and information statements. The significant shareholders of the Company are San Miguel Food and Beverage, Inc., a subsidiary of San Miguel Corporation, and Kirin Holdings Company, Limited.

Reporting

Regular updates on operating and financial information are provided to the investing community and stakeholders through adequate and timely disclosures filed with the SEC and the PDEx, and made available in the Company's website.

Full-year audited and quarterly unaudited interim financial statements are disclosed and submitted to the SEC and PDEx in accordance with prescribed rules. These financial statements conform to the Philippine Accounting Standards and Philippine Financial Reporting Standards, which are all in compliance with the International Accounting Standards. The financial results are presented to financial and investment analysts through a quarterly online analysts' briefing. The full results of the prior fiscal year and the first quarter results of the current year are also provided to the shareholders prior to the ASM. In 2020, the Company availed of the extended period granted by the SEC for the filing of its full year 2019 and first quarter 2020 results due to the Covid-19 situation.

In addition to compliance with structural reportorial requirements of the SEC, the Company discloses, in a timely manner, information on significant developments in the Company, as well as dividend declarations. These disclosures and other up-to-date and relevant information on the Company may be found at its website.

Accountability and Audit

The Audit Committee provides oversight to external and internal auditors.

External Auditor

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for fiscal year 2020. The external auditor is appointed by the shareholders upon the nomination of the Board after the recommendation of the Audit Committee. A different signing partner of the firm handled the Company's accounts beginning 2020.

Audit Fees amounting to P6.88 million were paid by the Company to the external auditor in 2020.

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

Internal Audit

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

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

Amended Manual on Corporate Governance

Pursuant to SEC Memorandum Circular No. 24, series of 2019, the Company amended its Manual on Corporate Governance (Manual) on May 25, 2020 to align with the recommendations under the Corporate Governance Code for Public Companies and Registered Issuers (CG Code for Public Companies and Registered Issuers) and submitted the Manual to the SEC. The Compliance Officer has certified that for 2020, the Company has substantially adopted in its Manual all recommendations under the CG Code for Public Companies and Registered Issuers, save for the deviations set out in the Compliance Officer's Certification dated January 25, 2021.

Board of Directors

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

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

In compliance with the Manual, the Board adopted the Charter of the Board of Directors of the Company on December 4, 2020. The Company's Charter of the Board of Directors sets out the composition, structure, qualifications, duties and responsibilities, liabilities and processes of the Board and serves as a guide to the Board in the conduct of its functions.

Composition

The Board consists of eleven members.

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

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

The Chairman and the President

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

Board Performance and Attendance

The Board held seven meetings in 2020. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the Board of Directors and at the same time communicate with the Board, management, the Company's shareholders and the investing public. Below is the record of attendance of the directors at these meetings and at the 2020 ASM.

	Feb 7	Mar 6	May 25	Jun 18 2020 ASM	Aug 3	Oct 30	Dec 4
Ramon S. Ang *	✓	✓	✓	✓	✓	✓	✓
Roberto N. Huang *	✓	✓	✓	✓	✓	✓	✓
Ferdinand K. Constantino *	✓	✓	✓	✓	✓	✓	✓
Keisuke Nishimura *	✓	✓	✓	✓	✓	✓	✓
Alonzo Q. Ancheta *	✓	✓	✓	✓	✓	✓	✓
Carmelo L. Santiago *	x	✓	✓	✓	✓	✓	✓
Carlos Antonio M. Berba *	✓	✓	✓	✓	✓	✓	✓
Toshiya Miyoshi *	✓	✓	✓	✓	✓	✓	✓
Daniel L. Henares *	✓	x	✓	✓	✓	✓	✓
Tomoki Yamauchi *	✓	✓	✓	✓	✓	✓	✓
Kenji Uchiyama *	✓	✓	✓	✓	✓	✓	✓

✓ ***Present***
x ***Absent***
* ***Elected at the May 28, 2019 ASM and re-elected at the June 18, 2020 ASM.***

Board Remuneration

Each director receives a reasonable per diem allowance of ₱20,000 and ₱10,000 for each Board and Board Committee meeting, respectively, attended by such director. Other than these per diem amounts, there are no standard arrangements pursuant to which the directors of the Company are compensated for services rendered by them.

In 2020, the Company paid a total of ₱1,840,000.00 in per diem allowances to the Board of Directors as follows:

Executive Directors	₱ 670,000.00
Non-Executive Directors (other than Independent Directors)	760,000.00
Independent Directors	410,000.00
	₱ 1,840,000.00

Board Committees

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

Executive Committee

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

The Executive Committee held one meeting in 2020 to approve the postponement of the Company's 2020 ASM due to Covid-19 considerations.

Governance and Nomination Committee

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

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

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

The Committee held three meetings in 2020 in which the Committee discussed and deliberated on, among others, the qualification of the nominees for election to the Board, the amendments to the Manual to align with the CG Code for Public Companies and Registered Issuers, and the Charter of the Board of Directors.

Executive Compensation Committee

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

The Committee held one meeting in 2020.

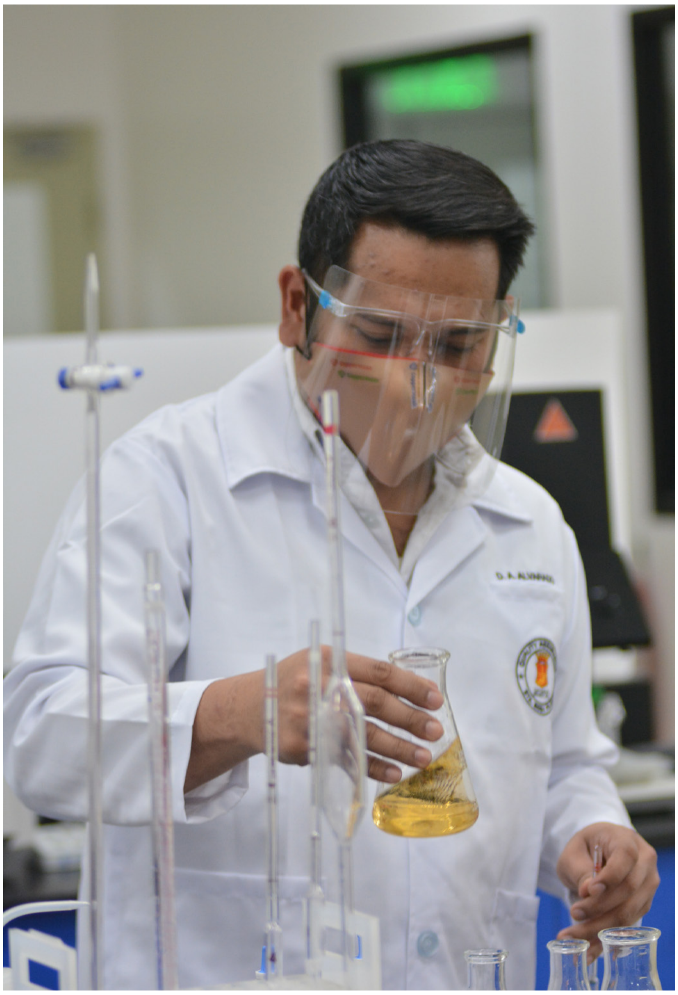
Audit Committee

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

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

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

The Audit Committee held four meetings in 2020 wherein the Committee reviewed and approved, among others, the Company's 2019 Audited Financial Statements and the Company's unaudited interim quarterly financial statements for the first to the third quarters of the year, as prepared by management. The Audit Committee likewise monitored and reviewed the adequacy and effectiveness of the Company's internal control systems through the regular reports of the internal audit. The Committee was appraised of the latest developments in regulatory requirements through the reports of the Compliance Officer.



Board Committee Attendance

The attendance of the members at the Board Committee meetings in 2020 is set out in the table below.

BOARD COMMITTEES				
	Executive	Audit	Excecutive Compensation	Governance and Nomination
Ramon S. Ang	C (1/1)			
Roberto N. Huang	M (1/1)			
Ferdinand K. Constantino		M (4/4)	C (1/1)	M (3/3)
Alonzo Q. Ancheta		M (4/4)		C (3/3)
Carmelo L. Santiago	M (1/1)	C (4/4)	M (1/1)	M (3/3)
Tomoki Yamauchi	M (1/1)	M (4/4)		
Kenji Uchiyama	M (1/1)	M (4/4)	M (1/1)	
Mercy Marie J.L. Amador				M (2/2)/A(1/1)*
Lynn B. Santos				M (2/2)/A(1/1)*

***Appointed as non-voting members during the May 28, 2019 organizational board meeting and appointed as advisors in the June 18, 2020 organizational board meeting**

C – Chairman
M – Member
A – Advisor

Management

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

Human Resources

The Company continues to support and dedicate resources for the training and development of its human resources. As such, career advancement and development opportunities are provided by the Company through training programs and seminars. It also implements employee relations programs that promote individual and collective well-being, and holistic growth of its employees within the organization.

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

The Company's permanent employees also enjoy a funded, non-contributory retirement plan.

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

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

Policies

Securities Dealing

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

Whistleblowing Policy

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

These policies are available on the Company's website.

Code of Conduct

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

Sustainability Report

In 2020, the Company published its first Sustainability Report covering the year 2019. The report sets out the Company's initiatives on sustainable development and describes the alignment of its activities and projects with the United Nations Sustainable Development Goals. The Company's 2019 Sustainability Report may be found in the Investors section of its website.

Compliance Monitoring

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

OPERATIONS COMMITTEE

Domestic Operations

Roberto N. Huang
President

Kenji Uchiyama
Executive Vice President

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

Tomoki Yamauchi
Executive Financial Advisor

Minerva Lourdes B/ Bibonia
SVP and Marketing Manager

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

Debbie D. Namalata
VP and National Sales Manager

Rene T. Ceniza
VP and National Logistics Manager

Feliciano M. Madlansacay
Finance Operations Manager

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

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

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

Manuel M. Moreno
Manufacturing Manager

Alma Leonora C. Javenia
AVP and Information Systems Management Manager

Benjamin C. Go Que
AVP and Brewing Technical Group Manager

Christian E. Santiago
AVP and Business Procurement Group Head

International Operations

Carlos Antonio M. Berba
SMBIL Managing Director

Fumiaki Ozawa
SMBIL Executive Vice President

Frederick R. Mariano
VP and SMBIL Chief Finance Officer

Jesus J. Bitanga, Jr.
SMBIL International Sales Manager

Frederick Gerard S. Martelino
VP and SMBIL Export Development Manager

Ernest John F. Estrera
VP and SMBIL Marketing Manager

Carmela R. Ortiz
VP and SMBIL Business Planning Head

Daniel B. Trajano
AVP and SMBIL Logistics Manager

Clifford T. Que
AVP and SMBIL Information Systems Management Manager

Roxanne Angela B. Millan
AVP and SMBIL Human Resources Head

REPORT OF THE AUDIT COMMITTEE
For the year ended December 31, 2020

The Audit Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies and related party transactions. In fulfillment of these responsibilities, the Audit Committee performed the following in 2020:

- recommended to the Board of Directors the re-appointment of R.G. Manabat & Co. as external auditors of the Company for 2020;

- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- reviewed and approved the scope of the audit and audit programs of the internal and external auditors, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition, and comply with the regulatory requirements of the Securities and Exchange Commission; and

- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

Carmelo L. Santiago
Chairman

Ferdinand K. Constantino
Member

Alonzo Q. Ancheta
Member

Tomoki Yamauchi

Kenji Uchiyama
Member

Tomoki Yamauchi
Member

SAN MIGUEL BREWERY INC.
A subsidiary of San Miguel Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of **San Miguel Brewery Inc.** (the "**Company**"), is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Ramon S. Ang
Chairman of the Board

Roberto N. Huang
President

Mercy Marie J. L. Amador
Chief Finance Officer and Treasurer

Signed this 5th day of March 2021

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES

(A Subsidiary of San Miguel Food and Beverage, Inc.)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

With Independent Auditors' Report

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of San Miguel Brewery Inc. and its Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 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.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

KPMG

Key Audit Matters

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

Impairment of Trademarks and Brand names (P33,513 million)
Refer to Note 15 to the consolidated financial statements.

The risk

The Group has assessed that the trademarks and brand names have indefinite useful lives in view of the fact that there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group. Trademarks and brand names represent 25.74% of the consolidated total assets of the Group. As required by Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, impairment testing is required annually for intangible assets with indefinite useful lives, irrespective of whether there is an indication that the related assets may be impaired.

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

Our response

Our audit work included an evaluation and assessment of the methodology applied in the impairment review in accordance with PAS 36. We have updated our understanding of the management forecasting process and the calculation of value in use of trademarks and brand names. We evaluated the appropriateness of forecast cash flows by comparing them with the latest budgets approved by the Board of Directors. We considered the historical accuracy of management's forecasts by comparing prior year forecasts to actual results. We challenged the key assumptions for long-term growth rates in the forecasts by comparing them with historical results, economic and industry forecasts; and the discount rate used in calculating the weighted average cost of capital using market comparable information. We have involved our own valuation specialists in the evaluation of these key assumptions. We have performed range of sensitivity analysis to assess the impact of reasonably possibly changes in key assumptions used by management. We have also assessed the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

Revenue Recognition (P107,928 million)
Refer to Note 3 to the consolidated financial statements.

The risk

The Group's revenue is mainly generated from selling and distribution of fermented, malt-based and non-alcoholic beverages. Significant risk of misstatement is associated with the sale and distribution operations of the Group. The said nature of the Group's operations poses a risk that revenue recognized may be inconsistent with the requirements of PFRS 15, *Revenue from Contracts with Customers*, since there is a timing difference between recording the transaction and transfer of control to the customers. Revenue may be inappropriately recognized in order to improve business results and achieve capital and revenue growths in line with the objectives of the Group. Moreover, due to the materiality of revenue in the consolidated financial statements, it is deemed as one of our key audit matters.

Our response

Our audit work included evaluation and assessment of the revenue recognition policies of the Group in accordance with PFRS 15. We have identified and assessed key controls over the revenue process. We have also involved our Information Technology (IT) audit specialists to assist in the audit of automated controls, including interface controls between different IT applications for the evaluation of relevant IT systems and in testing the design and operating effectiveness of controls over the recording of revenue transactions. We tested sales throughout the period by selecting sample of transactions to ascertain that it met the revenue recognition criteria. We examined and traced sales transaction to source documentation to ensure propriety of recording. We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items. We performed cut-off testing to check whether transactions were recorded in the appropriate accounting period. In addition, a combination of third party confirmations and testing of subsequent collections of receivables were conducted. We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 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.

KPMG

- 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 Maria Arleene C. Yu.

R.G. MANABAT & CO.

Maria Arleene C. Yu

MARIA ARLEENE C. YU
Partner
CPA License No. 0108855
SEC Accreditation No. 1710-A, Group A, valid until September 17, 2021
Tax Identification No. 225-068-761
BIR Accreditation No. 08-001987-041-2020
  Issued December 22, 2020; valid until December 21, 2023
PTR No. MKT 8533923
  Issued January 4, 2021 at Makati City

March 18, 2021
Makati City, Metro Manila

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
San Miguel Brewery Inc.
No. 40 San Miguel Avenue
Mandaluyong City

Opinion

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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.

KPMG

- 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 Maria Arleene C. Yu.

R.G. MANABAT & CO.

Maria Arleene C. Yu

MARIA ARLEENE C. YU
Partner
CPA License No. 0108855
SEC Accreditation No. 1710-A, Group A, valid until September 17, 2021
Tax Identification No. 225-068-761
BIR Accreditation No. 08-001987-041-2020
Issued December 22, 2020; valid until December 21, 2023
PTR No. MKT 8533923
Issued January 4, 2021 at Makati City

March 18, 2021
Makati City, Metro Manila

KPMG

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
TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES EXCHANGE COMMISSION

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Brewery Inc. and Subsidiaries (the "Group") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated March 18, 2021.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the following accompanying additional components are the responsibility of the Group's management.

- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

These supplementary information are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not required parts of the basic consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

Maria Arleene C. Yu

MARIA ARLEENE C. YU
Partner
CPA License No. 0108855
SEC Accreditation No. 1710-A, Group A, valid until September 17, 2021
Tax Identification No. 225-068-761
BIR Accreditation No. 08-001987-041-2020
Issued December 22, 2020; valid until December 21, 2023
PTR No. MKT 8533923
Issued January 4, 2021 at Makati City

March 18, 2021
Makati City, Metro Manila

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		December 31	
	Note	**2020**	2019
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 7, 33, 34*	**P24,185**	P30,451
Trade and other receivables - net	*4, 8, 28, 33, 34*	**5,662**	6,479
Inventories - net	*9*	**2,938**	2,893
Prepaid expenses and other current assets	*10, 28, 33, 34*	**2,161**	4,046
Total Current Assets		**34,946**	43,869
Noncurrent Assets			
Financial assets at fair value through other comprehensive income	*11, 33, 34*	**4,837**	39
Property, plant and equipment - net	*4, 12*	**30,189**	26,719
Right-of-use assets - net	*4, 13*	**1,898**	1,955
Investment property - net	*4, 14*	**1,768**	1,767
Intangible assets - net	*4, 15*	**35,638**	35,830
Deferred tax assets	*6, 19*	**918**	989
Other noncurrent assets - net	*4, 16, 28, 30, 33, 34*	**28,256**	28,873
Total Noncurrent Assets		**103,504**	96,172
		P138,450	P140,041
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	*17, 28, 33, 34*	**P16,023**	P17,732
Lease liabilities - current portion	*28, 29, 33, 34*	**190**	229
Income and other taxes payable	*6, 19*	**4,034**	4,549
Current maturities of long-term debt - net of debt issue costs	*6, 18, 33, 34*	**12,456**	-
Total Current Liabilities		**32,703**	22,510
Noncurrent Liabilities			
Long-term debt - net of debt issue costs	*6, 18, 33, 34*	**19,455**	31,866
Lease liabilities - net of current portion	*28, 29, 33, 34*	**1,073**	1,008
Other noncurrent liabilities	*28, 30*	**214**	425
Total Noncurrent Liabilities		**20,742**	33,299
Total Liabilities		**53,445**	55,809

Forward

	Note	2020	2019
		December 31	
Equity	*20*		
Equity Attributable to Equity Holders of the Company			
Capital stock		**P15,410**	P15,410
Additional paid-in capital		**515**	515
Equity reserves		**(1,292)**	(593)
Retained earnings:			
Appropriated		**36,970**	25,752
Unappropriated		**31,091**	40,510
Treasury stock		**(1,029)**	(1,029)
		81,665	80,565
Non-controlling Interests	*2, 5*	**3,340**	3,667
Total Equity		**85,005**	84,232
		P138,450	P140,041

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions, Except Per Share Data)

	Note	**2020**	2019	2018
SALES	*6, 28*	**P107,928**	P142,272	P129,249
COST OF SALES	*21, 27*	**65,875**	79,591	72,361
GROSS PROFIT		**42,053**	62,681	56,888
SELLING AND ADMINISTRATIVE EXPENSES	*22*	**(17,586)**	(23,961)	(21,603)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	*6 ,18, 25, 29*	**(2,098)**	(1,706)	(2,239)
IMPAIRMENT LOSS ON NONCURRENT ASSETS	*6, 27*	**-**	(903)	(544)
INTEREST INCOME	*6, 7*	**539**	1,020	1,062
OTHER INCOME - Net	*6, 11, 26*	**1,635**	1,635	156
INCOME BEFORE INCOME TAX		**24,543**	38,766	33,720
INCOME TAX EXPENSE	*6, 19*	**7,088**	11,481	9,884
NET INCOME	*6*	**P17,455**	P27,285	P23,836
Attributable to:				
Equity holders of the Company	*6*	**17,161**	P26,720	P23,404
Non-controlling interests	*6*	**294**	565	432
		P17,455	P27,285	P23,836
Basic and Diluted Earnings Per Share	*31*	**P1.12**	P1.74	P1.52

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018
(In Millions)

	Note	**2020**	2019	2018
NET INCOME		**P17,455**	P27,285	P23,836
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss				
Equity reserve for retirement plan and others	*30*	**404**	(129)	661
Income tax	*19*	**(111)**	49	(202)
		293	(80)	459
Item that will be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations - net of tax		**(1,174)**	(340)	773
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		**(881)**	(420)	1,232
TOTAL COMPREHENSIVE INCOME		**P16,574**	P26,865	P25,068
Attributable to:				
Equity holders of the Company		**P16,462**	P26,404	P24,608
Non-controlling interests		**112**	461	460
		P16,574	P26,865	P25,068

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions)

		Equity Attributable to Equity Holders of the Company										
				Equity Reserves			Retained Earnings					
	Note	**Capital Stock** (Note 20)	**Additional Paid-in Capital**	**Reserve for Retirement Plan**	**Fair Value Reserve**	**Cumulative Translation Adjustments Reserve**	**Appropriated** (Note 20)	**Unappropriated** (Note 20)	**Treasury Stock**	**Total**	**Non-controlling Interests**	**Total Equity**
As of December 31, 2019		**P15,410**	**P515**	**(P1,744)**	**P -**	**P1,151**	**P25,752**	**P40,510**	**(P1,029)**	**P80,565**	**P3,667**	**P84,232**
Net income		-	-	-	-	-	-	**17,161**	-	**17,161**	**294**	**17,455**
Other comprehensive income (loss):												
Loss on exchange differences on translation of foreign operations and others - net of tax		-	-	-	**(3)**	**(980)**	-	-	-	**(983)**	**(191)**	**(1,174)**
Equity reserve for retirement plan - net of tax	*30*	-	-	**284**	-	-	-	-	-	**284**	**9**	**293**
Total comprehensive income (loss)		-	-	**284**	**(3)**	**(980)**	-	**17,161**	-	**16,462**	**112**	**16,574**
Cash dividends	*20*	-	-	-	-	-	-	**(15,362)**	-	**(15,362)**	**(439)**	**(15,801)**
Appropriation	*20*	-	-	-	-	-	**17,000**	**(17,000)**	-	-	-	-
Reversal of appropriation	*20*	-	-	-	-	-	**(5,782)**	**5,782**	-	-	-	-
As of December 31, 2020		**P15,410**	**P515**	**(P1,460)**	**(P3)**	**P171**	**P36,970**	**P31,091**	**(P1,029)**	**P81,665**	**P3,340**	**P85,005**

Forward

		Equity Attributable to Equity Holders of the Company										
				Equity Reserves			Retained Earnings					
	Note	Capital Stock (Note 20)	Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Cumulative Translation Adjustments Reserve	Appropriated (Note 20)	Unappropriated (Note 20)	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2018, as adjusted		P15,410	P515	(P1,650)	P1	P1,372	P26,610	P28,293	(P1,029)	P69,522	P3,401	P72,923
Net income		-	-	-	-	-	-	26,720	-	26,720	565	27,285
Other comprehensive income (loss):												
Loss on exchange differences on translation of foreign operations and others - net of tax		-	-	-	(1)	(221)	-	-	-	(222)	(118)	(340)
Equity reserve for retirement plan - net of tax	30	-	-	(94)	-	-	-	-	-	(94)	14	(80)
Total comprehensive income (loss)		-	-	(94)	(1)	(221)	-	26,720	-	26,404	461	26,865
Additions to noncontrolling interests	28	-	-	-	-	-	-	-	-	-	390	390
Cash dividends	20	-	-	-	-	-	-	(15,361)	-	(15,361)	(585)	(15,946)
Appropriation	20	-	-	-	-	-	19,962	(19,962)	-	-	-	-
Reversal of appropriation	20	-	-	-	-	-	(20,820)	20,820	-	-	-	-
As of December 31, 2019		P15,410	P515	(P1,744)	P -	P1,151	P25,752	P40,510	(P1,029)	P80,565	P3,667	P84,232

Forward

	Equity Attributable to Equity Holders of the Company										
			Equity Reserves			Retained Earnings					
	Capital Stock	Additional Paid-in Capital	Reserve for Retirement Plan	Fair Value Reserve	Cumulative Translation Adjustments Reserve	Appropriated (Note 20)	Unappropriated (Note 20)	Treasury Stock	Total	Non-controlling Interests	Total Equity
As of December 31, 2017	P15,410	P515	(P2,110)	P3	P626	P15,010	P29,176	(P1,029)	P57,601	P3,283	P60,884
Net income	-	-	-	-	-	-	23,404	-	23,404	432	23,836
Other comprehensive income (loss):											
Gain (loss) on exchange differences on translation of foreign operations and others - net of tax	-	-	-	(2)	746	-	-	-	744	29	773
Equity reserve for retirement plan - net of tax	-	-	460	-	-	-	-	-	460	(1)	459
Total comprehensive income (loss)	-	-	460	(2)	746	-	23,404	-	24,608	460	25,068
Cash dividends	-	-	-	-	-	-	(12,596)	-	(12,596)	(342)	(12,938)
Appropriation	-	-	-	-	-	11,600	(11,600)	-	-	-	-
As of December 31, 2018	P15,410	P515	(P1,650)	P1	P1,372	P26,610	P28,384	(P1,029)	P69,613	P3,401	P73,014

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019, AND 2018
(In Millions)

	Note	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**P24,543**	P38,766	P33,720
Adjustments for:				
Depreciation, amortization and others	*23*	**4,543**	4,720	3,967
Interest expense and other financing charges	*18, 25*	**2,098**	1,706	2,239
Provision for impairment losses on receivables and inventories - net	*8, 9, 16*	**860**	630	565
Retirement costs	*30*	**573**	528	633
Loss (gain) on sale of property and equipment, investments and investment property - net	*26*	**20**	(7)	(3)
Impairment loss on noncurrent assets	*27*	**-**	903	544
Interest income	*7*	**(539)**	(1,020)	(1,062)
Operating income before working capital changes		**32,098**	46,226	40,603
Decrease (increase) in:				
Trade and other receivables		**663**	(1,699)	350
Inventories		**(58)**	659	(4,286)
Prepaid expenses and other current assets		**2,266**	(1,966)	(348)
Increase (decrease) in:				
Accounts payable and accrued expenses		**(1,506)**	2,299	6,580
Other taxes payable		**157**	112	(57)
Other noncurrent liabilities		**-**	10	3
Cash generated from operations		**33,620**	45,641	42,845
Income taxes paid		**(7,689)**	(10,665)	(9,767)
Interest paid	*18*	**(1,794)**	(1,747)	(2,188)
Contributions paid to the retirement plan	*30*	**(541)**	(648)	(625)
Net cash flows provided by operating activities		**23,596**	32,581	30,265

Forward

	Note	2020	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		**P555**	P1,066	P1,020
Proceeds from sale of:				
Property and equipment		**7**	18	15
Investments		**-**	-	2
Increase in intangible assets and other noncurrent assets		**(3,540)**	(9,173)	(9,781)
Additions to:				
Property, plant and equipment	6, 12	**(5,243)**	(6,769)	(5,230)
Financial asset at fair value through other comprehensive income	11	**(4,850)**	-	-
Investment property	14	**(68)**	(27)	(14)
Net cash flows used in investing activities		**(13,139)**	(14,885)	(13,988)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debt - net of debt issue costs		**-**	9,925	-
Proceeds from short-term borrowings	18	**-**	-	500
Deposit for future stock subscription	28	**-**	-	300
Additions to non-controlling interest		**-**	90	-
Payments of:				
Cash dividends	20	**(15,358)**	(15,359)	(12,595)
Lease liability	29	**(315)**	(526)	-
Loan payable	18	**-**	(500)	-
Dividends to non-controlling shareholders		**(439)**	(582)	(343)
Long-term debt	18	**-**	(12,810)	-
Net cash flows used in financing activities		**(16,112)**	(19,762)	(12,138)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(611)**	(371)	452
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(6,266)**	(2,437)	4,591
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**30,451**	32,888	28,297
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	**P24,185**	P30,451	P32,888

See Notes to the Consolidated Financial Statements.

SAN MIGUEL BREWERY INC. AND SUBSIDIARIES
(A Subsidiary of San Miguel Food and Beverage, Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share and Number of Shares Data)

1. Reporting Entity

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

The Company's common shares were listed on the Philippine Stock Exchange, Inc. (PSE) on May 12, 2008. The Company filed a petition for voluntary delisting with the PSE following the PSE's adoption of the minimum public ownership rule and denial by SEC of all requests made (including the Company's request) for the extension of the grace period to comply with such rule. The petition was approved by the PSE on April 24, 2013 and the Company's common shares were delisted effective May 15, 2013 (Note 20).

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

In November 2017, San Miguel Corporation (SMC) announced its intention to undertake an internal restructuring and consolidation of its food and beverage businesses under San Miguel Food and Beverage, Inc. (SMFB), previously known as "San Miguel Pure Foods Company, Inc." (SMFB Consolidation). The SMFB Consolidation is expected to result in synergies in the food and beverage business units of the SMC group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel group through SMFB. As part of the SMFB Consolidation, SMC transferred all its shares in the Company to SMFB in consideration of new common shares in SMFB. The SMFB Consolidation was completed on June 29, 2018, thereby resulting in the Company becoming a subsidiary of SMFB. Prior to the transaction, the Company was a direct subsidiary of SMC.

SMFB is the parent company of the Group. SMC is the intermediate parent of the Group while Top Frontier Investment Holdings, Inc. (TFIH) is the ultimate parent company of the Group. SMFB, SMC and TFIH are public companies under Section 17.2 of the Securities Regulation Code and their shares are listed on The Philippine Stock Exchange, Inc. (PSE).

The Company and its subsidiaries in the Group incorporated in the Philippines shall have a perpetual corporate term pursuant to the Revised Corporation Code of the Philippines which took effect on February 23, 2019, as the Company and its subsidiaries in the Group incorporated in the Philippines have not elected to retain the corporate term of 50 years in their respective Articles of Incorporation.

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

2. Basis of Preparation

Statement of Compliance

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

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 5, 2021.

Basis of Measurement

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

Items	Measurement Bases
Derivative financial instruments	Fair value
Financial assets at fair value through other comprehensive income (FVOCI);	Fair value
Net defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. All amounts have been rounded off to the nearest million (000,000), unless otherwise indicated.

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

Name of Subsidiary	Place of Business	Proportion of Ownership Interest Held by the Company	Proportion of Ownership Interest Held by the Subsidiaries	Effective Equity Interest of the Company*	Line of Business
Iconic Beverages, Inc. (IBI)	Philippines	100	-	100	Licensing trademarks
San Miguel Brewing International Limited (SMBIL)	British Virgin Islands	100	-	100	Manufacture and sale of beer
Neptunia Corporation Limited (NCL)	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited	Hong Kong	-	100	100	Investment holding
San Miguel Company Limited Taiwan Branch	Taiwan	-	100	100	Beer distribution
San Miguel Brewery Hong Kong Limited (SMBHK)	Hong Kong	-	65.8	65.8	Manufacture and sale of beer
Hongkong Brewery Limited	Hong Kong	-	100	65.8	Dormant
San Miguel Shunde Holdings Limited (SMSH)	Hong Kong	-	92	60.5	Investment holding
San Miguel (Guangdong) Brewery Co., Ltd. (SMGB)	People's Republic of China	-	100	60.5	Manufacture and sale of beer
San Miguel (Guangdong) Limited (SMGL)	Hong Kong	-	93	61.2	Investment holding
Guangzhou San Miguel Brewery Co., Ltd. (GSMB)**	People's Republic of China	-	70	42.8	Beer distribution
San Miguel (China) Investment Company Limited (SMCIC)	People's Republic of China	-	100	100	Investment holding
San Miguel (Baoding) Brewery Co., Ltd. (SMBB)***	People's Republic of China	-	100	100	Manufacture and sale of beer
San Miguel Holdings (Thailand) Limited (SMHTL)	Thailand	-	49	49	Investment holding
San Miguel Beer (Thailand) Limited (SMBTL)	Thailand	-	100	49	Manufacture and sale of beer
San Miguel Marketing (Thailand) Limited (SMMTL)	Thailand	-	100	100	Trading
Dragon Island Investments Limited (DIIL)	British Virgin Islands	-	100	100	Investment holding
San Miguel (Vietnam) Limited (SMVL)	Bermuda	-	100	100	Investment holding
San Miguel Brewery Vietnam Company Limited (SMBVL)	Republic of Vietnam	-	100	100	Manufacture and sale of beer
San Miguel Malaysia (L) Pte. Ltd. (SMMPL)	Malaysia	-	100	100	Investment holding
PT. Delta Djakarta Tbk and Subsidiary (PTD)	Republic of Indonesia	-	58.3	58.3	Manufacture and sale of beer
Brewery Properties Inc. (BPI)	Philippines	40	-	40	Property holding
Brewery Landholdings, Inc. (BLI)	Philippines	-	100	40	Property holding

**Represents the ultimate equity interest in the subsidiary at the level of the Company after taking into consideration the dilutive effects of the non-controlling interests at the various intervening levels of ownership.*
*** Ceased operations in November 2020 and is currently undergoing liquidation*
**** Ceased operations in March 2020 and is currently undergoing liquidation*

Best Investments International Inc., a subsidiary of SMBHK, was dissolved in April 2018.

Ravelin Limited, a subsidiary of SMBHK, ceased to exist as an entity separate from SMBHK with effect from June 19, 2019 pursuant to the vertical amalgamation of SMBHK with Ravelin Limited.

GSMB's business term expired on November 29, 2020 in accordance with GSMB's Articles of Association and the joint venture contract between SMGL and Guangzhou Brewery. The shareholders agreed not to renew the business term and joint venture and approved GSMB's dissolution upon the expiry of its business term. Following the cessation of GSMB operations, SMGB took over the sales and distribution of beer products in the South China market on November 30, 2020.

SMBB has stopped operations and production activities after SMBIL and SMCIC, the shareholders of SMBB, passed a resolution approving the dissolution of SMBB in March 2020.

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

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

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

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

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

Non-controlling interests include the interests not held by the Group in PTD, SMBTL, SMHTL, SMBHK group and BPI group in 2020 and 2019.

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, the carrying amount of any non-controlling interests and the cumulative translation differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss; and, (iii) reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. Significant Accounting Policies

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

Adoption of Amended Standards and Framework

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

New and Amended Standards and Framework Adopted in 2020
The Group has adopted the following new standards, amendments to standards and framework starting January 1, 2020 and accordingly, changed its accounting policies.

- 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 new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

- 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 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 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 flowsor 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 (Amendment 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 apply 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.

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

<u>New and Amended Standards and Framework Not Yet Adopted</u>

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 stated, none of these are expected to have a significant impact on the Group’s 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 apply 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 statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement 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 financialstatements 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:

  - 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 incentivein 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 of these amendments 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 a 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 fair value through profit or loss (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 a 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.

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 profit or loss when the financial asset is derecognized, modified or impaired.

The Group's cash and cash equivalents, trade and other receivables and noncurrent receivables are included under this category (Notes 7, 8, 16, 28, 33 and 34).

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 FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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.

At initial recognition of an investment in equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Financial assets at FVOCI are subsequently measured at fair value. Changes in fair value are recognized in other comprehensive income.

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group has no investment in debt securities as of December 31, 2020 and 2019.

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

Financial Assets at FVPL. All financial assets not classified and measured at amortized cost or at 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 profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets are classified under this category (Notes 10, 33 and 34).

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

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

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

The Group's derivative liabilities are classified under this category (Notes 17, 33 and 34).

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

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

The Group's liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, lease liabilities and long-term debt are included under this category (Notes 17, 18, 28, 29, 33 and 34).

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

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

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

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

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

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 ECL, 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 profit or loss.

Classification of Financial Instruments between Liability and Equity

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

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

- deliver cash or another financial 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 financial assets and settle the financial liabilities simultaneously.

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 of December 31, 2020 and 2019 (Notes 33 and 34).

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

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

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

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

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

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

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

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 the consolidated statements of income as they are consumed or expired 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 “Selling and administrative expenses” account in the consolidated statements of income.

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

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

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

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

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

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

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

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

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

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

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

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

Non-controlling Interests

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation, 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
Transportation equipment	3 - 15
Tools and other equipment	2 - 10
Office equipment, furniture and fixtures	2 - 20
Machinery and equipment	2 - 50
Buildings and improvements	5 - 50
Leasehold improvements	3 - 50 or term of the lease, whichever is shorter

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

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

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

<u>Leases</u>

Policy Applicable from January 1, 2019

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

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

- the Group has the right to direct the use of the identified asset.

Group as a 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. 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., lease 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. 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. The impact of applying practical expedient is considered not material to the consolidated financial statements.

Group as a 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.

Finance Lease
Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in the profit or loss.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

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.

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	10 - 50
Right-of-use assets	2 - 35

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

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

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

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

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

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

Amortization of computer software and licenses is computed using the straight-line method over useful lives of one to ten years.

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

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

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

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, right-of-use assets, investment property, deferred containers and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Trademarks, licenses and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs 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 the costs of disposal of the asset. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

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

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

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

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

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

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

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

Deferred Containers
Returnable bottles and shells are measured at cost less accumulated amortization and impairment, if any. These are presented as “Deferred containers-net” under “Other noncurrent assets-net” account in the consolidated statements of financial position and are amortized over the estimated useful lives of two to ten years. Depreciable amount is equal to cost less estimated residual value, equivalent to the deposit value. Amortization of deferred containers is included under “Selling and administrative expenses” account in the consolidated statements of income.

The remaining useful lives, residual values, and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of amortization are consistent with the expected pattern of economic benefits from deferred containers.

The carrying amount of deferred containers is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Refundable containers deposits are collected from customers based on deposit value and refunded when the containers are returned to the Group in good condition. These deposits are financial liabilities presented as “Containers deposit” under “Accounts payable and accrued expenses” account in the consolidated statements of financial position.

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

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

Capital Stock and Additional Paid-in Capital
Common Shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

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

Deposit for Future Stock Subscriptions
Deposit for future stock subscriptions represents amounts received that will be applied as payment in exchange for a fixed number of BPI's equity instruments. This is measured at cost and is reclassified to capital stock upon issuance of shares.

In accordance with SEC's Financial Reporting Bulletin No. 006, BPI classifies deposit for future stock subscription under equity as a separate account from capital stock if, and only if, all of the following elements are present as at the end of the reporting period:

- The unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- There is BOD's approval on the proposed increase in authorized capital stock (for which a deposit was received by BPI);
- There is stockholders' approval of said proposed increase; and
- The application for the approval of said proposed increase has been presented for filing or has been filed with the SEC.

If any of the foregoing elements are not present, the deposit is recognized as a liability.

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

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

Revenue Recognition
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 (alcoholic and non-alcoholic contents) is recognized at the point in time when control of the goods is transferred to the buyer, which is normally upon delivery of the goods. The Group provides trade discounts and volume rebates to certain customers based on the level of their purchases. Trade discounts and volume rebates do not result to significant variable consideration and are generally determined on a per transaction basis.

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

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

Others
Revenue is recognized when earned.

<u>Costs and Expenses</u>
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.

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

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

The cost of ESPP is measured by reference to the market price at the time of the grant less subscription price. The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and SMC's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Borrowing Costs

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

Research and Development Costs

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

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

Employee Benefits

Short-term Employee Benefits

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

Retirement Costs

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

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

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

Defined benefit costs comprise the following:

- Service costs
- Net interest on the defined benefit retirement liability or asset; 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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

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

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

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

<u>Foreign Currency</u>

Foreign Currency Translations

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

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items 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 profit or loss, 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, excluding foreign operations in hyperinflationary economies, are translated to Philippine peso at average exchange rates for the period.

Foreign currency differences are recognized in other comprehensive income and presented in the "Equity reserves" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

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

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

<u>Taxes</u>
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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Related Parties

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

Basic and Diluted Earnings Per Share (EPS)

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

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

Operating Segments

The Group's operating segments are organized and managed separately according to geographical location, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The President (the chief operating decision maker) reviews management reports on a regular basis.

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

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

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

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

4. Use of Judgments, Estimates and Assumptions

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

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

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

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

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

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 a 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 34.

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

Estimating the Incremental Borrowing Rate (Upon the Adoption of PFRS 16). The Group cannot readily determine the interest rate implicit in its leases. Therefore, it uses the relevant incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would 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 IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgement estimates.

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 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.

Rent expense recognized in the consolidated statements of income amounted to P489, P684 and P793 in 2020, 2019 and 2018, respectively (Notes 21, 22 and 29).

Determining the Lease Term of Contracts with Renewal Options - Group as Lessor (Upon the Adoption of PFRS 16). At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

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

Rent income recognized in the consolidated statements of income amounted to P181 P173 and P171 in 2020, 2019 and 2018, respectively (Notes 26 and 29).

Assessment of Intangible Assets with Indefinite Useful Life. The Group has assessed that the intangible assets have an indefinite useful life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group (Note 15).

Contingencies. The Group is currently involved in pending claims for tax refund and tax cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and tax cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group has recognized provision for possible tax assessment amounting to nil, nil, and P52 in 2020, 2019 and 2018, respectively (Notes 17 and 35).

Estimates and Assumptions

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

Assessment of ECL on Trade and Other Receivables. The Group, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade and other 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 types of receivables. The Group then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each type of receivables 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 receivables is not material because substantial amounts of receivables are normally collected within three months. 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 receivables.

Trade and other receivables written-off amounted to P14 and P28 in 2020 and 2019, respectively. The allowance for impairment losses on trade and other receivables amounted to P333 and P189 as of December 31, 2020 and 2019, respectively (Note 8).

The carrying amount of trade and other receivables amounted to P5,662 and P6,479 as of December 31, 2020 and 2019, respectively (Note 8).

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

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

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

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

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2020 and 2019.

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

	Note	**2020**	2019
Cash and cash equivalents (excluding cash on hand)	*7, 33, 34*	**P23,532**	P29,730
Long-term receivables (included under "Other noncurrent assets-net" account)	*16, 33, 34*	**12**	10

There was no allowance for impairment losses on noncurrent receivables recognized in the consolidated statements of financial position as of December 31, 2020 and 2019.

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

The combined carrying amount of trademarks, brand names and licenses with indefinite useful lives amounted to P35,618 and P35,805 as of December 31, 2020 and 2019, respectively (Note 15).

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 30 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 P11,481 and P12,642 as of December 31, 2020 and 2019, respectively (Note 30).

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

Accumulated impairment losses of property, plant and equipment, right-of-use assets, deferred containers and intangible assets with finite useful lives, including cumulative translation adjustments, amounted to P13,391 and P13,367 as of December 31, 2020 and 2019, respectively (Notes 12, 13, 15 and 16).

The combined carrying amount of property, plant and equipment, right-of-use assets, investment property, deferred containers and intangible assets with finite useful lives amounted to P59,175 and P56,666 as of December 31, 2020 and 2019, respectively (Notes 12, 13, 14, 15 and 16).

5. Investments in Shares of Stocks of Subsidiaries

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

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

	December 31, 2020					December 31, 2019				
	BPI	**SMBHK**	**PTD**	**SMBTL**	**SMHTL**	BPI	SMBHK	PTD	SMBTL	SMHTL
Non-controlling percentage on profit or loss	**7%**	**-**	**-**	**-**	**-**	7%	-	-	-	-
Non-controlling ownership interest percentage	**60%**	**34.2%**	**41.7%**	**51.0%**	**51.0%**	60%	34.2%	41.7%	51.0%	51.0%
Non-controlling voting interest percentage	**60%**	**34.2%**	**41.7%**	**9.4%**	**9.4%**	60%	34.2%	41.7%	9.4%	9.4%
Carrying amount of non-controlling interests	**P873**	**P1,151**	**P1,454**	**(P1,115)**	**P19**	P872	P1,148	P1,845	(P1,196)	P20
Current assets	**P31**	**P1,846**	**P3,346**	**P572**	**P5**	P199	P1,741	P4,297	P602	P6
Noncurrent assets	**3,595**	**2,823**	**1,491**	**1,915**	**199**	3,259	3,029	1,581	2,149	209
Current liabilities	**(56)**	**(1,291)**	**(1,150)**	**(4,674)**	**(167)**	(51)	(1,346)	(1,272)	(5,096)	(176)
Noncurrent liabilities	**-**	**(15)**	**(198)**	**-**	**-**	-	(70)	(178)	-	-
Net assets (liabilities)	**P3,570**	**P3,363**	**P3,489**	**(P2,187)**	**P37**	P3,407	P3,354	P4,428	(P2,345)	P39
Dividends paid to non-controlling interests	**P11**	**P -**	**P424**	**P -**	**P -**	P11	P -	P566	P -	P -
Net income attributable to non-controlling interests	**P11**	**P30**	**P191**	**P23**	**P -**	P11	P19	P484	P9	P -
Other comprehensive income (loss) attributable to non-controlling interests	**P11**	**P34**	**(P58)**	**(P3)**	**P -**	P11	P22	P69	(P244)	P6
Sales	**P245**	**P3,569**	**P3,426**	**P1,525**	**P -**	P241	P3,851	P5,553	P2,145	P -
Net income	**P173**	**P88**	**P457**	**P45**	**P -**	P160	P55	P1,162	P18	P -
Other comprehensive income (loss)	**-**	**100**	**(139)**	**(5)**	**-**	-	65	165	(478)	11
Total comprehensive income (loss)	**P173**	**P188**	**P318**	**P40**	**P -**	P160	P120	P1,327	(P460)	P11
Cash flows provided by (used in) operating activities	**P191**	**P133**	**P300**	**P78**	**P -**	P135	P46	P358	(P16)	P -
Cash flows provided by (used in) investing activities	**(331)**	**(49)**	**29**	**(22)**	**-**	(444)	(20)	26	(15)	-
Cash flows provided by (used in) financing activities	**(11)**	**(27)**	**(436)**	**(73)**	**-**	288	-	(565)	-	-
Effects of exchange rate changes on cash and cash equivalents	**-**	**1**	**(18)**	**1**	**-**	-	1	59	17	-
Net increase (decrease) in cash and cash equivalents	**(P151)**	**P58**	**(P125)**	**(P16)**	**P -**	(P21)	P27	(P122)	(P14)	P -

6. Segment Information

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

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

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

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

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

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

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

Financial information about the operating segments follow:

	For the Year Ended December 31, 2020			
	Domestic	**International**	**Eliminations**	**Total**
Sales				
External sales	**P97,810**	**P10,118**	**P -**	**P107,928**
Inter-segment sales	**18**	**-**	**(18)**	**-**
Total Sales	**P97,828**	**P10,118**	**(P18)**	**P107,928**
Result				
Segment result	**P23,259**	**P1,207**	**P1**	**P24,467**
Interest expense and other financing charges	**(2,074)**	**(24)**	**-**	**(2,098)**
Interest income				**539**
Other income - net				**1,635**
Income tax expense				**(7,088)**
Net Income				**P17,455**
Attributable to:				
Equity holders of the Company				**P17,161**
Non-controlling interests				**294**
Net Income				**P17,455**

	As of and For the Year Ended December 31, 2020			
	Domestic	**International**	**Eliminations**	**Consolidated**
Other Information				
Segment assets	**P95,987**	**P17,129**	**(P13,946)**	**P99,170**
Trademarks and brand names	**32,000**	**1,513**	**-**	**33,513**
Other assets				**4,849**
Deferred tax assets				**918**
Consolidated Total Assets				**P138,450**
Segment liabilities	**P14,219**	**P2,942**	**(P27)**	**P17,134**
Long-term debt including current maturities - net of debt issue costs	**31,911**	**-**	**-**	**31,911**
Income and other taxes payable				**4,034**
Accrued interests and dividends payable				**366**
Consolidated Total Liabilities				**P53,445**
Capital expenditures	**P5,084**	**P159**	**P -**	**P5,243**
Depreciation and amortization of property, plant and equipment	**1,354**	**224**	**-**	**1,578**
Noncash items other than depreciation and amortization of property, plant and equipment	**2,902**	**64**	**(1)**	**2,965**

	For the Year Ended December 31, 2019			
	Domestic	International	Eliminations	Total
Sales				
External sales	P128,512	P13,760	P -	P142,272
Inter-segment sales	33	-	(33)	-
Total Sales	P128,545	P13,760	(P33)	P142,272
Result				
Segment result	P36,886	P1,813	P21	P38,720
Interest expense and other financing charges	(1,706)	-	-	(1,706)
Interest income				1,020
Impairment loss on noncurrent assets				(903)
Other income - net				1,635
Income tax expense				(11,481)
Net Income				P27,285
Attributable to:				
Equity holders of the Company				P26,720
Non-controlling interests				565
Net Income				P27,285

	As of and For the Year Ended December 31, 2019			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	P96,491	P22,852	(P13,952)	P105,391
Trademarks and brand names	32,000	1,595	-	33,595
Other assets				66
Deferred tax assets				989
Consolidated Total Assets				P140,041
Segment liabilities	P15,715	P3,349	(P32)	P19,032
Long-term debt including current maturities - net of debt issue costs	31,866	-	-	31,866
Income and other taxes payable				4,549
Accrued interests and dividends payable				362
Consolidated Total Liabilities				P55,809
Capital expenditures	P6,614	P155	P -	P6,769
Depreciation and amortization of property, plant and equipment	1,150	309	-	1,459
Noncash items other than depreciation and amortization of property, plant and equipment	3,027	1,134	3	4,164

	For the Year Ended December 31, 2018			
	Domestic	International	Eliminations	Total
Sales				
External sales	P115,622	P13,627	P -	P129,249
Inter-segment sales	33	-	(33)	-
Total Sales	P115,655	P13,627	(P33)	P129,249
Result				
Segment result	P33,617	P1,668	P -	P35,285
Interest expense and other financing charges	(2,239)	-	-	(2,239)
Interest income				1,062
Impairment loss on noncurrent assets				(544)
Other income - net				156
Income tax expense				(9,884)
Net Income				P23,836
Attributable to:				
Equity holders of the Company				P23,404
Non-controlling interests				432
Net Income				P23,836

	As of and For the Year Ended December 31, 2018			
	Domestic	International	Eliminations	Consolidated
Other Information				
Segment assets	P84,883	P22,602	(P13,976)	P93,509
Trademarks and brand names	32,000	1,656	-	33,656
Other assets				115
Deferred tax assets				1,092
Consolidated Total Assets				P128,372
Segment liabilities	P12,960	P2,858	(P36)	P15,782
Loan payable	500	-	-	500
Long-term debt including current maturities - net of debt issue costs	34,715	-	-	34,715
Income and other taxes payable				3,763
Accrued interests and dividends payable				569
Deferred tax liabilities				29
Consolidated Total Liabilities				P55,358
Capital expenditures	P4,095	P252	P883	P5,230
Depreciation and amortization of property, plant and equipment	1,045	351	-	1,396
Noncash items other than depreciation and amortization of property, plant and equipment	2,565	545	5	3,115

7. Cash and Cash Equivalents

This account consists of:

	Note	**2020**	2019
Cash in banks and on hand		**P5,647**	P6,613
Short-term investments		**18,538**	23,838
	4, 33, 34	**P24,185**	P30,451

Cash in banks earn annual interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the short-term investment rates ranging from 0.04% to 5.20%. Interest income from cash in bank and short-term investments amounted to P539, P1,020 and P P1,062 for the years December 31, 2020, 2019 and 2018, respectively.

8. Trade and Other Receivables

This account consists of:

	Note	**2020**	2019
Trade:			
Amounts owed by third parties		**P5,178**	P5,818
Amounts owed by related parties	*28*	**7**	14
Non-trade:			
Amounts owed by third parties		**628**	672
Amounts owed by related parties	*28*	**182**	164
		5,995	6,668
Less allowance for impairment losses	*4*	**333**	189
	33, 34	**P5,662**	P6,479

Trade receivables are non-interest bearing and are generally on a 7 to 90-day credit term.

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

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

	Note	**2020**	2019
Balance at beginning of year		**P189**	P220
Write-off during the year	*4*	**(14)**	(28)
Impairment loss (reversal) during the year	*22*	**164**	(2)
Currency translation adjustments		**(6)**	(1)
Balance at end of year		**P333**	P189

9. Inventories

This account consists of:

	2020	2019
At net realizable value:		
Finished goods and goods in process	**P1,561**	P1,467
Materials and supplies	**1,377**	1,426
	P2,938	P2,893

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

	2020	2019
Finished goods and goods in process	**P1,581**	P1,492
Materials and supplies	**1,394**	1,438
	P2,975	P2,930

The write-down of inventories recognized as expense as part of “Administrative Expenses” amounted to P14, P12 and P21 for the years ended December 31, 2020, 2019 and 2018, respectively (Note 22). Write-off of inventories amounted to P14, P5 and P4 in 2020, 2019 and 2018, respectively. No reversal of write-down had been recognized in 2020, 2019 and 2018.

Inventory charged to cost of sales amounted to P10,159, P14,895 and P13,600 for the years ended December 31, 2020, 2019 and 2018, respectively (Note 21).

10. Prepaid Expenses and Other Current Assets

This account consists of:

	Note	2020	2019
Prepaid taxes and licenses	*35*	**P1,515**	P3,436
Prepaid insurance		**337**	167
Prepaid supplies/materials		**234**	347
Prepaid rent	*28*	**16**	12
Derivative assets	*33, 34*	**25**	55
Others		**34**	29
		P2,161	P4,046

Others include promotional and miscellaneous expenses.

11. Financial Assets at Fair Value Through Other Comprehensive Income

The Group's financial assets at FVOCI are as follows:

	Note	2020	2019
Redeemable perpetual securities	*28*	**P4,803**	P -
Club shares		**34**	39
		P4,837	P39

On August 4, 2020, the Group through SMBIL signed a subscription agreement with SMC for the subscription of the latter's redeemable perpetual securities (RPS) with aggregate face value amount of $100 or P4,850. The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. SMBIL will have the right to receive distribution at 2.5% per annum, payable quarterly in arrears every November 5, February 5, May 5 and August 5 of each year commencing on November 5, 2020. SMC has a right to defer this distribution under certain conditions. As at December 31, 2020, SMBIL received dividend income amounting to P30 and is presented as part of "Other income - net" in the consolidated statements of income.

The methods and assumptions used to estimate the fair value of financial assets at FVOCI are discussed in Note 34.

12. Property, Plant and Equipment

The movements in this account are as follows:

	Land	Machinery and Equipment	Buildings and Improvements	Transportation Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools and Other Equipment	CPIP	Total
Cost									
January 1, 2019	P9,065	P45,220	P12,619	P964	P623	P636	P328	P1,460	P70,915
Additions (Note 6)	-	3,847	1,492	159	9	53	30	1,179	6,769
Disposals/reclassifications	-	(168)	456	(39)	(488)	(23)	(9)	(13)	(284)
Currency translation adjustments	41	(741)	(307)	(2)	(2)	(8)	(3)	(1)	(1,023)
December 31, 2019	9,106	48,158	14,260	1,082	142	658	346	2,625	76,377
Additions (Note 6)	47	4,659	1,552	59	164	58	22	(1,318)	5,243
Disposals/reclassifications	-	(508)	(14)	(25)	1	(4)	(15)	5	(560)
Currency translation adjustments	(58)	(265)	(140)	(5)	1	(12)	(10)	(1)	(490)
December 31, 2020	**9,095**	**52,044**	**15,658**	**1,111**	**308**	**700**	**343**	**1,311**	**80,570**
Accumulated Depreciation and Amortization									
January 1, 2019	-	28,800	5,727	697	265	492	230	-	36,211
Additions (Notes 21, 22, 23)	-	1,044	252	67	30	42	24	-	1,459
Disposals/reclassifications	-	(135)	150	(39)	(171)	(22)	(8)	-	(225)
Currency translation adjustments	-	(276)	(101)	(2)	(1)	(5)	(3)	-	(388)
December 31, 2019	-	29,433	6,028	723	123	507	243	-	37,057
Additions (Notes 21, 22, 23)	-	1,148	274	79	5	47	25	-	1,578
Disposals/reclassifications	-	(473)	(5)	(21)	-	(12)	(10)	-	(521)
Currency translation adjustments	-	(201)	(86)	(4)	1	(9)	(9)	-	(308)
December 31, 2020	**-**	**29,907**	**6,211**	**777**	**129**	**533**	**249**	**-**	**37,806**

Forward

	Land	Machinery and Equipment	Buildings and Improvements	Transportation Equipment	Leasehold Improvements	Office Equipment, Furniture and Fixtures	Tools and Other Equipment	CPIP	Total
Accumulated Impairment Losses									
January 1, 2019	P -	P9,243	P3,136	P10	P1	P41	P22	P -	P12,453
Additions	-	627	194	1	-	13	6	-	841
Disposals/reclassifications	-	(31)	(73)	-	-	(1)	(1)	-	(106)
Currency translation adjustments	-	(427)	(158)	(1)	-	(2)	1	-	(587)
December 31, 2019	-	9,412	3,099	10	1	51	28	-	12,601
Disposals/reclassifications	-	(11)	-	(2)	-	(1)	(4)	-	(18)
Currency translation adjustments	-	(33)	27	-	-	(1)	(1)	-	(8)
December 31, 2020	**-**	**9,368**	**3,126**	**8**	**1**	**49**	**23**	**-**	**12,575**
Carrying Amount									
December 31, 2019	P9,106	P9,313	P5,133	P349	P18	P100	P75	P2,625	P26,719
December 31, 2020	**P9,095**	**P12,769**	**P6,321**	**P326**	**P178**	**P118**	**P71**	**P1,311**	**P30,189**

Depreciation and amortization charged to operations amounted to P1,578, P1,459, and P1,396 in 2020, 2019 and 2018, respectively (Notes 21, 22 and 23). No interest was capitalized in 2020 and 2019.

Following the impairment testing of the Group, impairment losses recognized on property, plant and equipment related to its foreign operations amounted to nil, P841 and P544 in 2020, 2019 and 2018, respectively (Note 27).

Certain fully depreciated property, plant and equipment with aggregate costs of P16,875 and P16,712 as at December 31, 2020 and 2019, respectively, are still being used in the Group's operations.

13. Right-of-Use Assets

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

	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Furniture, Other Equipment and Others	Total
Cost					
January 1, 2019	P2,001	P546	P4	P181	P2,732
Additions	29	36	-	41	106
Currency translation adjustments	(61)	(1)	-	-	(62)
December 31, 2019	1,969	581	4	222	2,776
Additions	204	26	2	8	240
Disposals/ reclassifications	3	(3)	-	(1)	(1)
Currency translation adjustments	(12)	-	(1)	-	(13)
December 31, 2020	**2,164**	**604**	**5**	**229**	**3,002**
Accumulated Depreciation and Amortization					
January 1, 2019	494	-	-	-	494
Additions (Notes 21, 22, 23)	75	118	3	78	274
Currency translation adjustments	(27)	-	-	-	(27)
December 31, 2019	542	118	3	78	741
Additions (Notes 21, 22, 23)	71	123	2	89	285
Disposals/ reclassifications	1	(3)	-	7	5
Currency translation adjustments	(3)	-	(1)	-	(4)
December 31, 2020	**611**	**238**	**4**	**174**	**1,027**
Accumulated Impairment Losses					
January 1, 2019	82	-	-	-	82
Currency translation adjustments	(2)	-	-	-	(2)
December 31, 2019	80	-	-	-	80
Currency translation adjustments	(3)	-	-	-	(3)
December 31, 2020	**77**	**-**	**-**	**-**	**77**
Carrying Amount					
December 31, 2019	P1,347	P463	P1	P144	P1,955
December 31, 2020	**P1,476**	**P366**	**P1**	**P55**	**P1,898**

The Group recognized right-of-use assets for leases of office space, warehouse, delivery trucks and parcels of land. The leases typically run for a period of two to 28 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.

14. Investment Property

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

	ROU Asset	Land and Land Improvements	Buildings and Improvements	Total
Cost				
January 1, 2019	P -	P955	P745	P1,700
Additions	-	21	6	27
Adjustment due to adoption of PFRS 16	681	-	-	681
Currency translation adjustments	(20)	-	(24)	(44)
December 31, 2019	661	976	727	2,364
Additions	-	68	-	68
Currency translation adjustments	(31)	-	(34)	(65)
December 31, 2020	**630**	**1,044**	**693**	**2,367**
Accumulated Depreciation and Amortization				
January 1, 2019	-	-	360	360
Additions	16	-	16	32
Adjustment due to adoption of PFRS 16	224	-	-	224
Currency translation adjustments	(7)	-	(12)	(19)
December 31, 2019	233	-	364	597
Additions	15	-	15	30
Currency translation adjustments	(11)	-	(17)	(28)
December 31, 2020	**237**	**-**	**362**	**599**
Carrying Amount				
December 31, 2019	P428	P976	P363	P1,767
December 31, 2020	**P393**	**P1,044**	**P331**	**P1,768**

No impairment loss was recognized in 2020, 2019 and 2018.

The fair value of investment property amounting to P5,904 and P5,817 as of December 31, 2020 and 2019, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques.

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

Rent income on the Group's investment property recognized as part of other income amounted to P174, P169, and P163 in 2020, 2019 and 2018, respectively (Note 26). Direct cost attributable to investment property amounted to P10, P8, and P6, in 2020, 2019 and 2018, respectively.

Valuation Technique and Significant Unobservable Inputs

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

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

International. The valuation is determined using the Income Approach which considers the capitalization of net rent income receivable from existing tenancies and the reversionary value of the property after tenancies expire by reference to market sales transactions. The significant unobservable input in the fair value measurement is the discount rate, which ranged from 2.0% to 4.0% and 2.0% to 4.5% in 2020 and 2019, respectively.

15. Intangible Assets

The movements in this account are as follows:

	Trademarks and Brand Names	**Licenses**	**Computer Software and Licenses**	**Land Use Rights** (see Note 3)	**Total**
Cost					
January 1, 2019	P33,939	P2,135	P257	P1,911	P38,242
Additions	-	-	15	-	15
Adjustment due to adoption of PFRS 16	-	-	-	(1,915)	(1,915)
Currency translation adjustments	(70)	75	(4)	4	5
December 31, 2019	33,869	2,210	268	-	36,347
Additions	-	-	8	-	8
Disposals/reclassifications	-	-	(3)	-	(3)
Currency translation adjustments	(94)	(105)	(6)	-	(205)
December 31, 2020	**33,775**	**2,105**	**267**	**-**	**36,147**
Accumulated Amortization					
January 1, 2019	44	-	226	716	986
Additions	-	-	16	-	16
Disposals/reclassifications	-	-	(1)	-	(1)
Adjustment due to adoption of PFRS 16	-	-	-	(718)	(718)
Currency translation adjustments	(1)	-	(3)	2	(2)
December 31, 2019	43	-	238	-	281
Additions	-	-	13	-	13
Disposals/reclassifications	-	-	(3)	-	(3)
Currency translation adjustments	(2)	-	(6)	-	(8)
December 31, 2020	**41**	**-**	**242**	**-**	**283**
Accumulated Impairment Losses					
January 1, 2019	239	-	6	6	251
Disposals/reclassifications	-	-	-	73	73
Adjustment due to adoption of PFRS 16	-	-	-	(82)	(82)
Currency translation adjustments	(8)	-	(1)	3	(6)
December 31, 2019	231	-	5	-	236
Currency translation adjustments	(10)	-	-	-	(10)
December 31, 2020	**221**	**-**	**5**	**-**	**226**
Carrying Amount					
December 31, 2019	P33,595	P2,210	P25	P -	P35,830
December 31, 2020	**P33,513**	**P2,105**	**P20**	**P -**	**P35,638**

Trademarks and brand names with indefinite useful lives amounted to P33,513 and P33,595 as of December 31, 2020 and 2019, respectively. Licenses with indefinite useful lives amounted to P2,105 and P2,210 as of December 31, 2020 and 2019, respectively (Note 4).

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

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

The aggregate cost of fully amortized trademarks and brand names amounted to P262 and P274 as of December 31, 2020 and 2019, respectively.

Management's calculations are updated to reflect the most recent developments as at reporting date. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that a market participant would make. Management considers the impact of COVID-19 in its financial projections (see Note 35).

Trademarks and Brand Names

a. Domestic Operations

   The recoverable amount of the trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The 2% growth rate used is consistent with the long-term average growth rate for the industry. The discount rate applied to after tax cash flow projections is 9.0% in 2020 and 2019.

   No impairment loss recognized in the value of trademarks and brand names in 2020, 2019 and 2018.

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

b. International Operations

   The recoverable amount of the trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The 2% to 3% growth rates used are consistent with the long-term average growth rates for the industry. The discount rates applied to after tax cash flow projections range from 6.0% to 15.1% both for 2020 and 2019.

   Management assessed that there was no impairment loss in the value of trademarks and brand names for the years ended December 31, 2020 and 2019.

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

Discount Rate. The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

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

16. Other Noncurrent Assets

This account consists of:

	Note	2020	2019
Deferred containers - net:			
Bottles		**P15,744**	P16,311
Shells		**9,556**	9,889
		25,300	26,200
Others	*4, 28, 30, 33, 34*	**2,956**	2,673
		P28,256	P28,873

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

The movements in the deferred containers are as follows:

	Note	2020	2019
Gross Carrying Amount			
Balance at beginning of year		**P39,941**	P34,964
Additions		**3,455**	6,836
Disposals/reclassifications		**(2,147)**	(1,846)
Currency translation adjustments		**(113)**	(13)
Balance at end of year		**41,136**	39,941
Accumulated Amortization			
Balance at beginning of year		**13,060**	11,416
Amortization	23	**2,661**	2,900
Disposals/reclassifications		**(592)**	(1,246)
Currency translation adjustments		**(27)**	(10)
Balance at end of year		**15,102**	13,060
Accumulated Impairment			
Balance at beginning of year		**681**	579
Impairment	22	**682**	682
Disposals/reclassifications		**(626)**	(580)
Currency translation adjustments		**(3)**	-
Balance at end of year		**734**	681
		P25,300	P26,200

17. Accounts Payable and Accrued Expenses

This account consists of:

	Note	**2020**	2019
Trade:			
Amounts owed to third parties		**P4,752**	P4,706
Amounts owed to related parties	*28*	**2,060**	2,798
Containers deposit		**6,230**	6,922
Non-trade:			
Derivative liabilities	*33, 34*	**3**	3
Amounts owed to related parties	*28*	**4**	4
Accruals:			
Payroll		**761**	1,194
Advertising and promotions		**616**	432
Capital projects		**599**	524
Interests	*18*	**336**	336
Materials and supplies		**59**	69
Contracted services		**39**	97
Utilities		**27**	17
Others		**537**	630
		P16,023	P17,732

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

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

18. Loan Payable and Long-term Debt

Loan Payable

On December 19, 2018, the Company obtained a short-term loan with a local bank amounting to P500 with an interest rate of 6.87% per annum, which matured and was paid on January 23, 2019. The loaned amount was used to purchase United States (US) Dollar that was used to pay foreign currency-denominated obligations.

Long-term Debt

This account consists of:

	Note	**2020**	2019
Unsecured peso-denominated bonds and term notes:			
Series F bonds, fixed interest rate of 6.60%		**P6,988**	P6,979
Series G bonds, fixed interest rate of 5.50%		**12,456**	12,436
Series H bonds, fixed interest rate of 6.00%		**2,528**	2,526
Term Loan, fixed interest rate of 4.63%		**9,939**	9,925
	33, 34	**31,911**	31,866
Less: Current maturities		**12,456**	-
		P19,455	P31,866

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

The Company's unsecured long-term notes comprise the Philippine peso-denominated fixed rate bonds in the aggregate principal amount of: (a) P7,000 pertaining to the aggregate principal amount of Series F bonds which remain outstanding of the P20,000 bonds (P20,000 Bonds) which were issued on April 2, 2012 (P20,000 Bonds Issue Date); and (b) P15,000 (P15,000 Bonds) which were issued on April 2, 2014 (P15,000 Bonds Issue Date).

The P20,000 Bonds which originally consisted of the Series D bonds (with a term of five years and one day from the P20,000 Bonds Issue Date), the Series E bonds (with a term of seven years from the P20,000 Bonds Issue Date), and the Series F bonds (with a term of ten years from the P20,000 Bonds Issue Date) were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 16, 2012. The Series E bonds and Series F bonds were listed on the PDEx for trading on April 2, 2012, while the Series D bonds were listed on the PDEx for trading on October 3, 2012. The Series D bonds with an aggregate principal amount of P3,000 matured on April 3, 2017 and was accordingly redeemed by the Company on the said date. The Series E bonds with an aggregate principal amount of P10,000 matured on April 2, 2019 and were accordingly redeemed by the Company on April 2, 2019. Only the Series F bonds remain outstanding of the P20,000 Bonds. The Company used its available cash to finance the maturity of the Series D bonds and Series E bonds. Unamortized debt issue costs related to the Series E bonds and Series F bonds amounted to P12 and P21 as of December 31, 2020 and 2019, respectively.

The P15,000 Bonds consist of the Series G bonds (with a term of seven years from the P15,000 Bonds Issue Date) and Series H bonds (with a term of ten years from the P15,000 Bonds Issue Date). The P15,000 Bonds were sold to the public pursuant to a registration statement that was rendered effective, and permit to sell issued, by the SEC on March 17, 2014 and were listed on the PDEx for trading on April 2, 2014. Unamortized debt issue costs related to the P15,000 Bonds amounted to P16 and P38 as of December 31, 2020 and 2019, respectively.

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

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

In November 2017, SMC announced its intention to undertake the SMFB Consolidation. The SMFB Consolidation was expected to result in synergies in the food and beverage business units of the San Miguel group, unlock greater shareholder value by providing a sizeable consumer vertical market under SMC, and provide investors direct access to the consumer business of the San Miguel group through SMFB.

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

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

Term Loan
On December 19, 2019, The Company entered into an unsecured, long-term, interest-bearing loan from a local bank amounting to P10,000 to be used for general corporate requirements. The loan is carried at amortized cost and bears annual interest rate at Philippine peso fixed-rate of 4.63%. The loan is payable in five years and will mature in December 2024.

As of December 31, 2020 and 2019, the outstanding balance of the term loan amounted to P10,000. As of December 31, 2020 and 2019, the unamortized debt issue costs amounted to P61 and P75, respectively.

The Group is required to comply with two financial covenants: minimum interest coverage ratio of 4.75 and maximum debt to equity ratio of 3.5. As of December 31, 2020 and 2019, the Group was in compliance with its debt covenants.

The movements in debt issue costs are as follows:

	Note	**2020**	2019
Balance at beginning of year		**P134**	P95
Additions		**-**	75
Amortization	*25*	**(45)**	(36)
Balance at end of year		**P89**	P134

Repayment Schedule
As of December 31, 2020, the annual maturities of long-term debt are as follows:

Year	**Gross Amount**	**Debt Issue Costs**	**Net**
2021	P12,462	P6	P12,456
2022	7,000	12	6,988
2024	12,538	71	12,467
	P32,000	**P89**	**P31,911**

As of December 31, 2019 the annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2021	P12,462	P26	P12,436
2022	7,000	21	6,979
2024	12,538	87	12,451
	P32,000	P134	P31,866

Interest expense recognized in the consolidated statements of income amounted to P1,794, P1,535, and P2,189 in 2020, 2019 and 2018, respectively (Note 25).

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

The fair value of long-term debt amounting to P22,858 and P22,895 as of December 31, 2020 and 2019, respectively, has been categorized as Level 1 in the fair value hierarchy based on the inputs used in the valuation techniques. Fair value of term loan amounting to P10,901 and P10,256 as of December 31, 2020 and 2019, respectively, has been categorized as Level 2 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 34).

Reconciliation of the opening and closing balance of loan payable and long-term debt are as follows:

2020	**Loan Payable**	**Long-term Debt**	**Term Loan**	**Accrued Interests**	**Total**
Opening balance	**P -**	**P21,941**	**P9,925**	**P336**	**P32,202**
Interest expense and other financing charges	**-**	**31**	**14**	**1,794**	**1,839**
Payments	**-**	**-**	**-**	**(1,794)**	**(1,794)**
Closing balance	**P -**	**P21,972**	**P9,939**	**P336**	**P32,247**

2019	Loan Payable	Long-term Debt	Term Loan	Accrued Interests	Total
Opening balance	P500	P34,715	P -	P548	P35,763
Proceeds from borrowings	-	-	9,925	-	9,925
Interest expense and other financing charges	-	36	-	1,535	1,571
Payments	(500)	(12,810)	-	(1,747)	(15,057)
Closing balance	P -	P21,941	P9,925	P336	P32,202

19. Income Taxes

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

	2020	2019
Items recognized in profit or loss		
Allowance for inventory losses	**P246**	P222
Net defined benefit retirement liability	**(182)**	(86)
Allowance for impairment losses on trade and other receivables	**95**	53
Unrealized losses on derivatives - net	**25**	14
Unrealized foreign exchange losses (gains) - net	**6**	(3)
Leases*	**76**	53
Others	**43**	28
Item recognized directly in other comprehensive income		
Equity reserve for retirement plan	**609**	708
	P918	P989

**including the effect of PFRS 16 transition in 2019.*

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

					December 31, 2020		
	Balance at Beginning of the Year - net	**Recognized in Profit or Loss**	**Recognized Directly in Other Comprehensive Income**	**Recognized Directly in Retained Earnings***	**Balance at End of the Year** - net	**Deferred Tax Assets**	**Deferred Tax Liabilities**
Equity reserve for retirement plan	**P708**	**P -**	**(P111)**	**P12**	**P609**	**P611**	**P2**
Allowance for inventory losses	**222**	**26**	**-**	**(2)**	**246**	**246**	**-**
Net defined benefit retirement liability	**(86)**	**(81)**	**-**	**(15)**	**(182)**	**(187)**	**(5)**
Allowance for impairment losses on receivables	**53**	**43**	**-**	**(1)**	**95**	**95**	**-**
Unrealized losses (gains) on derivatives - net	**14**	**11**	**-**	**-**	**25**	**25**	**-**
Unrealized foreign exchange gains - net	**(3)**	**9**	**-**	**-**	**6**	**6**	**-**
Leases*	**53**	**23**	**-**	**-**	**76**	**76**	**-**
Others	**28**	**19**	**-**	**(4)**	**43**	**46**	**3**
Net assets	**P989**	**P50**	**(P111)**	**(P10)**	**P918**	**P918**	**P -**

					December 31, 2019		
	Balance at Beginning of the Year - net	Recognized in Profit or Loss	Recognized Directly in Other Comprehensive Income	Recognized Directly in Retained Earnings*	Balance at End of the Year - net	Deferred Tax Assets	Deferred Tax Liabilities
Equity reserve for retirement plan	P659	P -	P49	P -	P708	P714	P6
Allowance for inventory losses	206	16	-	-	222	222	-
Net defined benefit retirement liability	102	(187)	-	(1)	(86)	(104)	(18)
Allowance for impairment losses on receivables	47	6	-	-	53	53	-
Unrealized losses (gains) on derivatives - net	37	(22)	-	(1)	14	14	-
Unrealized foreign exchange gains - net	(1)	(2)	-	-	(3)	(3)	-
Leases*	4	36	-	13	53	53	-
Others	9	17	-	2	28	40	12
Net assets	P1,063	(P136)	P49	P13	P989	P989	P -

**in relation to the adoption of PFRS 16*

The components of income tax expense are shown below:

	2020	2019	2018
Current	**P6,912**	P10,987	P9,631
Final	**226**	358	271
Deferred	**(50)**	136	(18)
	P7,088	P11,481	P9,884

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

	2020	2019	2018
Statutory income tax rate	**30.00%**	30.00%	30.00%
Decrease in income tax rate resulting from:			
Income subjected to final tax	**(0.66)**	(0.79)	(0.94)
Others	**(0.39)**	(0.37)	(0.32)
Effective income tax rate	**28.95%**	28.84%	28.74%

20. Equity

Capital Stock

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

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

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

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

The Company has 25,000,000,000 authorized common shares with P1 par value. As of December 31, 2020 and 2019, the Company has a total of 15,359,053,161 issued and outstanding common shares (excluding the 51,425,799 common shares tendered and accepted by the Company during the tender offer and recorded as treasury shares) and 1,039 shareholders of record both years. As of December 31, 2020 and 2019, the Certificate Authorizing Registration (CAR) for 48,777,899 common shares out of the 51,425,799 common shares tendered and accepted during the tender offer (equivalent to 94.85% of the total tendered and accepted) were secured and presented to the Company. The CARs for the remaining common shares tendered and accepted during the tender offer have yet to be issued by the Bureau of Internal Revenue (BIR) as of December 31, 2020

Retained Earnings

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

The Company's BOD declared cash dividends as follows:

December 31, 2020

Date of Declaration	Stockholders of Record	Date Paid	Dividend Per Share	Amount
February 7, 2020	February 21, 2020	February 28, 2020	**P0.25**	**P3,840**
May 25, 2020	June 11, 2020	June 25, 2020	**0.25**	**3,840**
August 3, 2020	August 18, 2020	September 3, 2020	**0.25**	**3,841**
October 30, 2020	November 17, 2020	December 3, 2020	**0.25**	**3,841**
				P15,362

December 31, 2019

Date of Declaration	Stockholders of Record	Date Paid	Dividend Per Share	Amount
February 1, 2019	February 18, 2019	March 6, 2019	P0.25	P3,840
May 3, 2019	May 23, 2019	June 6, 2019	0.25	3,840
August 2, 2019	August 20, 2019	September 4, 2019	0.25	3,840
October 31, 2019	November 18, 2019	December 4, 2019	0.25	3,841
				P15,361

On February 5, 2021, the BOD of the Company declared cash dividends at P0.25 per share to all stockholders of record as of February 22, 2021 which was paid on March 2, 2021.

The movements in appropriated retained earnings are as follows:

	Note	2020	2019
Balance at beginning of year		**P25,752**	P26,610
Additional appropriations	*20a, 20b*	**17,000**	19,962
Reversal of appropriations	*20b, 20c, 20d, 20e*	**(5,782)**	(20,820)
Balance at end of year		**P36,970**	P25,752

a. On December 4, 2020, the Company appropriated an additional P17,000 of retained earnings for the repayment of the Company's term loan and redemption of the Series F bonds in April 2021.

b. On December 4, 2019, the Company appropriated an additional P19,962 of retained earnings for the redemption of the Series G bonds in April 2021 and capacity expansion of the Company's brewery in Bacolod City, Negros Occidental to support volume growth of the Group. P1,280 was disbursed for the foregoing projects in 2020 and was accordingly reversed.

c. Of the P11,600 appropriations in 2018 for the construction of a new brewery in Tagoloan, Misamis Oriental and for the construction of brewhouse and cellars in the Company's Sta. Rosa, Laguna production facility, P4,502 and P5,810 was disbursed for the foregoing projects in 2020 and 2019, respectively and was accordingly reversed.

d. The P12,810 appropriations in 2017 for the redemption of the Company's Series C and Series E bonds was reversed upon the redemption of the Series C and E bonds in April 2019.

e. The remaining P2,200 appropriations in 2016 for the various ongoing projects to support volume growth namely, the additional packaging line in the Company's production facility in Sta. Rosa, Laguna, the new brewery in Tagoloan, Misamis Oriental and additional non-alcoholic beverage facilities in the Company's production plants in Valenzuela City and Davao City was reversed in 2019 upon the disbursement of the said amount for the foregoing projects.

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

21. Cost of Sales

This account consists of:

	Note	**2020**	2019	2018
Taxes and licenses		**P49,975**	P57,595	P52,060
Inventories	*9*	**10,159**	14,895	13,600
Communications, light, fuel and water		**2,060**	2,891	2,699
Personnel	*24*	**1,594**	1,890	1,759
Depreciation and amortization	*23*	**1,131**	1,161	1,095
Repairs and maintenance		**533**	673	663
Tolling fee		**-**	-	30
Rent	*4, 29*	**24**	22	32
Others		**399**	464	423
		P65,875	P79,591	P72,361

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

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

22. Selling and Administrative Expenses

This account consists of:

	2020	2019	2018
Selling	**P7,605**	P12,731	P11,382
Administrative	**9,981**	11,230	10,221
	P17,586	P23,961	P21,603

Selling expenses consist of:

	Note	2020	2019	2018
Advertising and promotion		**P2,213**	P5,334	P4,501
Freight, trucking and handling		**1,954**	3,617	3,307
Personnel	*24*	**1,826**	2,055	1,970
Rent	*4, 29*	**418**	595	618
Taxes and licenses		**340**	313	319
Depreciation and amortization	*23*	**268**	248	86
Provision for (reversal of) impairment losses on receivables	*8*	**164**	(2)	(24)
Travel and transportation		**104**	169	158
Repairs and maintenance		**81**	110	105
Communications, light, fuel and water		**67**	98	99
Others		**170**	194	243
		P7,605	P12,731	P11,382

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

Administrative expenses consist of:

	Note	2020	2019	2018
Personnel	*24*	**P3,082**	P3,410	P3,390
Depreciation and amortization	*23*	**3,229**	3,335	2,908
Contracted services		**815**	954	823
Provision for inventory losses and deferred containers	*9, 16*	**696**	632	589
Donations		**435**	158	304
Management fees	*28*	**367**	400	465
Breakages		**298**	344	288
Communications, light, fuel and water		**251**	411	248
Professional fees		**236**	272	163
Repairs and maintenance		**225**	328	248
Taxes and licenses		**99**	167	87
Shipping expenses		**90**	34	53
Travel and transportation		**60**	150	131
Rent	*4, 29*	**47**	67	143
Research and development		**18**	98	81
Others		**33**	470	300
		P9,981	P11,230	P10,221

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

23. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	**2020**	2019	2018
Cost of sales:				
Property, plant and equipment	*12*	**P1,118**	P1,146	P1,095
Right-of-use of assets	*13*	**13**	15	-
	21	**1,131**	1,161	1,095
Selling and administrative expenses:				
Deferred containers	*16*	**2,661**	2,900	2,568
Property, plant and equipment	*12*	**460**	313	301
Right-of-use of assets	*13*	**272**	259	-
Others	*14, 15*	**104**	111	125
	22	**3,497**	3,583	2,994
		P4,628	P4,744	P4,089

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

24. Personnel Expense

This account consists of:

	Note	**2020**	2019	2018
Salaries and wages		**P4,137**	P4,506	P4,377
Other employee benefits		**1,792**	2,321	2,109
Retirement costs	*30*	**573**	528	633
		P6,502	P7,355	P7,119

Personnel expense is distributed as follows:

	Note	**2020**	2019	2018
Cost of sales	*21*	**P1,594**	P1,890	P1,759
Selling expenses	*22*	**1,826**	2,055	1,970
Administrative expenses	*22*	**3,082**	3,410	3,390
		P6,502	P7,355	P7,119

25. Interest Expense and Other Financing Charges

This account consists of:

	Note	**2020**	2019	2018
Interest expense - Long-term debt	*18*	**P1,794**	P1,535	P2,189
Interest expense - External		**113**	-	-
Interest expense - Lease		**101**	115	-
Interest expense - Actuarial	*30*	**45**	20	-
Amortization of debt issue costs	*18*	**45**	36	50
		P2,098	P1,706	P2,239

26. Other Income - net

This account consists of:

	Note	**2020**	2019	2018
Rent income	*4, 14, 29*	**P181**	P173	P171
Royalty income		**20**	28	27
Foreign exchange gains (losses) - net	*33*	**(11)**	23	(44)
Gain (loss) on sale of:				
Property and equipment		**(20)**	7	2
Investment property		**-**	-	1
Derivatives - net	*34*	**36**	130	(1)
Miscellaneous items		**1,569**	1,430	-
Others		**(140)**	(156)	-
		P1,635	P1,635	P156

Miscellaneous items pertain to Tax Credit Certificates (TCC) issued by the BIR to the Company for the tax refund cases of San Mig Light for the years 2007-2008 and 2011 in 2020 and tax cases of 2009 and 2010 in 2019 (Note 35).

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

27. Impairment Loss on Noncurrent Assets

a. North China Operations

In 2019, the Group incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecasted sales. These factors, among others, are indications that noncurrent assets of the Group's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired.

As discussed in Note 2, in March 2020, SMBB has stopped operations and production activities after SMBIL and SMCIC, the shareholders of SMBB, passed a resolution approving the dissolution of SMBB. Accordingly, the Group assessed the recoverable amounts of SMBB's assets and determined that the carrying amounts of the assets are higher than their recoverable amounts. Impairment losses were recognized to reduce carrying amounts to recoverable amounts of property, plant and equipment and deferred expenses amounting to nil, P903 and nil in 2020, 2019 and 2018, respectively.

As SMBB's assets have been reduced to their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts would result in further impairment losses.

b. Hong Kong Operations

In 2018, due to the fierce market competition in Hong Kong, the Group tested the SMBHK production plant located in Yuen Long, New Territories for impairment.

The Group assessed the recoverable amount of SMBHK's production plant and determined that the carrying amount of the assets was higher than its recoverable amount of P2,067. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to nil and P544 in 2019 and 2018, respectively.

The recoverable amount of SMBHK's assets is determined based on a value in use calculation and the cash flows are discounted using a discount rate of 10.2%. The discount rate used is pre-tax and reflects specific risks relating to the Hong Kong brewing operations.

In 2019, the Group reassessed the recoverable amount of SMBHK's production plant and concluded that no further impairment losses or reversals of previously recognized impairment losses are required in 2019.

As SMBHK's assets have been reduced to their recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

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

As discussed in Note 2, on November 29, 2020, the business term of GSMB had expired, in accordance with its Articles of Association and the joint venture contract between SMGL and Guangzhou Brewery, and the shareholders have agreed not to renew the same. Because of the expiry of its business term, all GSMB employees had been terminated effective November 29, 2020 and GSMB had ceased operations and business activities on November 30, 2020.

SMGB, another SMBHK subsidiary in PRC that is currently a major production source for the San Miguel brands sold by GSMB, had undertaken the selling and marketing of these San Miguel brands in the South China Market which commenced on November 30, 2020.

28. Related Party Disclosures

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

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

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Financial Assets at Fair Value Through Other Comprehensive Income	Terms	Conditions
Intermediate Parent	**2020**	**P21**	**P1,114**	**P15**	**P171**	**P4,798**	On demand;	Unsecured;
	2019	34	1,180	27	132	-	non-interest	no impairment
						-	bearing	
Shareholder	**2020**	**-**	**-**	**2**	**-**	**-**	On demand;	Unsecured;
	2019	-	-	3	-	-	non-interest	no impairment
							bearing	
Under Common Control	**2020**	**314**	**7,294**	**175**	**2,738**	**-**	On demand;	Unsecured;
	2019	376	12,196	148	3,379	-	non-interest	no impairment
						-	bearing	
	2020	**P336**	**P8,408**	**P193**	**P2,909**	**P4,798**		
	2019	P410	P13,376	P178	P3,511	P -		

a. Amounts owed by related parties consist of trade and non-trade receivables and share in expenses (Note 8). Amounts owed by related parties included under "Prepaid expenses and other current assets" account in the consolidated statements of financial position amounted to P1 and nil as of December 31, 2020 and 2019, respectively (Note 10). Amounts owed by related parties included under "Other non-current assets-net" account amounted to P3 and nil as of December 31, 2020 and 2019 respectively (Note 16).

b. As discussed in Note 11, on August 4, 2020, the Group through SMBIL signed a subscription agreement with SMC for the subscription of the latter's redeemable perpetual securities.

c. Amounts owed to related parties consist of trade payables arising from purchases of materials, bottles, shells, cartons and non-trade payables arising from professional fees, insurance, lease of outdoor advertising spaces, management fees (Note 22), reimbursement of expenses, and other services rendered by related parties (Note 17). Amounts owed to related parties included under "Lease liabilities" account in the consolidated statements of financial position amounted to P843 and P707 for December 31, 2020 and 2019, respectively. Amounts owed to related parties included under "Other noncurrent liabilities" account in the consolidated statements of financial position both amounted to P2 for December 31, 2020 and 2019.

On August 3, 2018, the stockholders and BOD of BPI approved the increase of BPI's authorized capital stock from P1,600 to P2,600 which shall be divided into 5,200,000 common shares with a par value of P350 and 7,800,000 preferred shares with a par value of P100 and its corresponding amendment in its Articles of Incorporation. The Company subscribed to additional 2,000,000 common shares in the amount of P700 while San Miguel Brewery Inc. Retirement Plan (SMBRP) subscribed to additional 3,000,000 preferred shares in the amount of P300. BPI received P300 as deposit for future stock subscription from SMBRP for its subscription to additional 3,000,000 preferred shares and included the same as part of "Other noncurrent liabilities" account in the consolidated statements of financial position as of December 31, 2018 in compliance with SEC Financial Reporting Bulletin No.006. On March 8, 2019, the stockholders and BOD of BPI approved the further increase in the authorized capital stock of BPI by P300 in addition to the P1,000 increase approved on August 3, 2018, which will bring then authorized capital stock of BPI from P1,600 to P2,900 and its corresponding amendment in its Articles of Incorporation. The Company subscribed to an additional 600,000 common shares in the amount of P210, while SMBRP subscribed to an additional 900,000 preferred shares in the amount of P90. BPI's application for the increase in its authorized capital stock and corresponding amendment in its Articles of Incorporation was approved by the SEC on September 16, 2019.

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

	2020	2019	2018
Short-term employee benefits	**P182**	P224	P215
Retirement costs	**35**	29	34
	P217	P253	P249

29. Leasing Agreements

Group as Lessor

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

The maturity analysis of Lease receivables are as follows:

	2020	2019
Less than one year	**P148**	P130
Between one and five years	**135**	94
More than five years	**2**	-
	P285	P224

Rent income recognized in the consolidated statements of income amounted to P181, P173, and P171 in 2020, 2019 and 2018, respectively (Notes 4 and 26).

Group as Lessee
The Group leases the land and buildings where some of its offices and warehouses are located under operating lease arrangements. The leases typically run for a period of two to 28 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Information about leases for which the Company is a lessee are presented below.

Lease Liabilities

	2020	2019
Balance at January 1	**P1,237**	P -
Change in accounting policy	**-**	1,544
Additions	**240**	104
Amortization	**101**	115
Payments	**(315)**	(526)
Balance at December 31	**P1,263**	P1,237

Amounts recognized in profit or loss:

Leases under PFRS 16	**2020**	2019
Interest on lease liabilities	**P101**	P115
Income from sub-leasing right-of-use assets	**(159)**	(156)
Expenses relating to short-term leases and low-value assets	**489**	684
Payment of lease liabilities	**315**	526
Total cash outflow for leases	**P746**	P1,169

Rent expense recognized in the consolidated statements of income amounted to P489, P684, and P793 in 2020, 2019 and 2018, respectively (Notes 4, 21 and 22).

30. Retirement Plans

The Company and some of its international subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering certain number of their permanent employees. The Retirement Plans 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 Company's Retirement Plan, SMBRP, is registered with the BIR as a tax qualified plan under Republic Act No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees (BOT) of each Retirement Plan. The BOT of the Company's Retirement Plan exercises voting rights over the shares it has invested in and approves material transactions. SMBRP's accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

Retirement costs recognized in profit or loss by the Company amounted to P518, P470, and P553 in 2020, 2019 and 2018, respectively, while those charged by the subsidiaries amounted to P55, P58, and P80 in 2020, 2019 and 2018, respectively (Note 24). The Group's annual contributions to the Retirement Plans consist of payments covering the current service cost plus amortization of unfunded past service liability.

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

	Present Value of Defined Benefit Retirement Obligation		Fair Value of Plan Assets		Net Defined Benefit Retirement Liability	
	2020	2019	**2020**	2019	**2020**	2019
Balance at beginning of year	**P12,642**	P11,600	**P12,241**	P11,215	**P401**	P385
Recognized in Profit or Loss						
Current service cost	**573**	526	**-**	-	**573**	526
Interest expense	**619**	826	**-**	-	**619**	826
Interest income	**-**	-	**585**	806	**(585)**	(806)
Administrative expense paid out of plan assets	**-**	-	**-**	(2)	**-**	2
	1,192	1,352	**585**	804	**607**	548
Recognized in Other Comprehensive Income						
Remeasurements:						
Actuarial (gains) losses arising from:						
Experience adjustments	**(1,582)**	128	**-**	-	**(1,582)**	128
Changes in financial assumptions	**234**	188	**-**	-	**234**	188
Changes in demographic assumptions	**44**	5	**-**	-	**44**	5
Return on plan assets excluding interest	**-**	-	**(894)**	192	**894**	(192)
Changes in the effect of asset ceiling	**-**	-	**(6)**	-	**6**	-
	(1,304)	321	**(900)**	192	**(404)**	129
Others						
Contributions	**-**	-	**541**	648	**(541)**	(648)
Benefits paid	**(1,003)**	(608)	**(993)**	(598)	**(10)**	(10)
Translation and other adjustments	**(46)**	(23)	**(32)**	(20)	**(14)**	(3)
	(1,049)	(631)	**(484)**	30	**(565)**	(661)
Balance at end of year	**P11,481**	P12,642	**P11,442**	P12,241	**P39**	P401

As of December 31, 2020 and 2019, the net defined benefit retirement liability included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P195 and P407, respectively.

As of December 31, 2020 and 2019, the net defined benefit retirement asset included as part of "Other noncurrent assets-net" account in the consolidated statements of financial position amounted to P157 and P6, respectively.

The retirement costs amounting to P573, P528 and P633 in 2020, 2019 and 2018, respectively, are recognized as part of "Personnel expense" account in the consolidated statements of income (Note 24).

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

The plan assets of the Group's Retirement Plans consist of the following:

	In Percentages	
	2020	2019
Investments in marketable securities and shares of stock	**73**	73
Investment in pooled funds:		
Stock trading portfolio	**4**	4
Fixed income portfolio	**10**	9
Others	**13**	15

Investments in Marketable Securities
As of December 31, 2020, the plan assets of the Group's Retirement Plans include the following plan assets of SMBRP:

	Type	**Number of Shares**	**Fair Value**
SMB	**Common**	**28,549,900**	**P20.00 per share**
	Bond		**307**
SMC	**Common**	**19,991,080**	**128.10 per share**
	Preferred:		
	Subseries E	**1,333,400**	**75.40 per share**
	Subseries F	**8,000,000**	**77.30 per share**
	Subseries I	**6,153,600**	**76.80 per share**
	Subseries J	**2,630,000**	**75.50 per share**
	Subseries K	**200,000**	**75.50 per share**
	Bonds		**685**
TFIH	**Common**	**1,864,314**	**140.00 per share**
Ginebra San Miguel Inc. (GSMI)	**Common**	**2,990,432**	**49.40 per share**
Petron Corporation	**Preferred**	**200,000**	**1,114.00 per share**
(Petron)	**Common**	**1,214,000**	**3.99 per share**
SMFB	**Common**	**1,723,540**	**67.00 per share**
	Bond		**146**
South Luzon Tollway Corporation (SLTC)	**Bond**	**-**	**102**
SMC Global Power Holdings Corp. (SMC Global)	**Bond**	**-**	**391**

As of December 31, 2019, the plan assets of the Group's Retirement Plans include the following plan assets of SMBRP:

	Type	Number of Shares	Fair Value
SMB	Common	28,549,900	P20.00 per share
	Bond		306
SMC	Common	19,957,120	164.00 per share
	Preferred:		
	Subseries D	2,729,900	75.00 per share
	Subseries E	1,333,400	77.00 per share
	Subseries F	8,000,000	75.80 per share
	Subseries I	6,153,600	75.20 per share
	Bonds		660
TFIH	Common	1,863,814	214.00 per share
GSMI	Common	2,865,032	38.00 per share
Petron	Preferred	200,000	1,055.00 per share
SMFB	Preferred	200,000	997.00 per share
SLTC	Bond	-	200
SMC Global	Bond	-	382

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

SMBRP recognized gains on the investment in marketable securities of SMC and its subsidiaries amounting to P771, P439 and P389 in 2020, 2019 and 2018, respectively.

Dividend income of SMBRP from the investment in shares of stock of SMC and its subsidiaries amounted to P167, P179 and P162 in 2020, 2019 and 2018, respectively.

Investments in Shares of Stock
As of December 31, 2020 and 2019, SMBRP has an investment in BPI representing 8,608,494 preferred shares (inclusive of nominee shares) amounting to P859, accounted for under cost method, which approximates fair value (Note 28).

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

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

Approximately 42.43% and 37.19% of SMBRP's investment in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as of December 31, 2020 and 2019, respectively.

Approximately 15.10% and 13.99% of SMBRP's investment in pooled funds in fixed income portfolio include investment in shares of stock of SMC and its subsidiaries as of December 31, 2020 and 2019, respectively.

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

The BOT of each Retirement Plan reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the 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 defined benefit retirement obligation. The Group is expected to contribute P408 to the Retirement Plans in 2021.

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

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

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

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

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

	In Percentages	
	2020	2019
Discount rate	**0.4-6.3**	1.8 - 8.3
Salary increase rate	**2.0-8.0**	4.0 - 8.0

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

As of December 31, 2020 and 2019, the weighted average duration of defined benefit retirement obligation is 5.0 - 8.8 and 6.0 - 9.34 years, respectively.

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

	2020		2019	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P743)**	**P868**	(P785)	P906
Salary increase rate	**867**	**(762)**	903	(796)

Transactions with the Retirement Plans are made at normal market prices.

31. Earnings Per Share

Basic and diluted EPS is computed as follows:

	2020	2019	2018
Net income attributable to equity holders of the Company (a)	**P17,161**	P26,720	P23,404
Weighted average number of shares outstanding (in millions) (b)	**15,359**	15,359	15,359
Basic/diluted EPS (a/b)	**P1.12**	P1.74	P1.52

As of December 31, 2020, 2019 and 2018, the Group has no dilutive debt or equity instruments.

32. Employee Stock Purchase Plan

SMC offers shares of stocks to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

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

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

There were no shares offered under the ESPP in 2020 and 2019.

33. Financial Risk and Capital Management Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency and interest rate risks arising from the operating and financing activities. The accounting policies in relation to derivatives are set out in Note 3 to the consolidated financial statements.

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

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

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

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

Interest Rate Risk

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

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

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

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

The Group has no floating rate borrowings in 2020 and 2019.

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

	1 - 3 Years	> 3 - 5 Years	> 5 Years	Total
December 31, 2020				
Philippine peso-denominated	**P19,462**	**P12,538**	**P -**	**P32,000**
Interest rate	**5.5%-6.6%**	**4.6%-6.0%**	**-**	**-**
December 31, 2019				
Philippine peso-denominated	P19,462	P12,538	P -	P32,000
Interest rate	5.5%-6.6%	4.6%-6.0%	-	-

Foreign Currency Risk

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

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

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as at December 31 are as follows:

	2020		2019	
	US Dollar*	**Peso Equivalent**	US Dollar*	Peso Equivalent
Assets				
Cash and cash equivalents	**$169.8**	**P8,157**	$237.3	P12,017
Trade and other receivables	**23.2**	**1,113**	34.1	1,727
Noncurrent receivables	**0.2**	**10**	0.2	9
	193.2	**9,280**	271.60	13,753
Liabilities				
Accounts payable and accrued expenses	**112.4**	**5,396**	83.0	4,205
Lease liabilities	**0.3**	**16**	0.5	25
	112.7	**5,412**	83.50	4,230
Net foreign currency-denominated monetary assets	**$80.5**	**P3,868**	$188.1	P9,523

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

The Group reported net foreign exchange gains (losses) amounting to (P11), P23 and (P44) in 2020, 2019 and 2018, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 26). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2020	**48.02**
December 31, 2019	50.64
December 31, 2018	52.58

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

	P1 Decrease in the US Dollar Exchange Rate		**P1 Increase in the US Dollar Exchange Rate**	
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	**(P26)**	**(P162)**	**P26**	**P162**
Trade and other receivables	**-**	**(23)**	**-**	**23**
	(26)	**(185)**	**26**	**185**
Accounts payable and accrued expenses	**56**	**95**	**(56)**	**(95)**
Lease liabilities	**-**	**1**	**-**	**(1)**
	P56	**P96**	**(P56)**	**(P96)**
	P30	**(P89)**	**(P30)**	**P89**

December 31, 2019	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P12)	(P234)	P12	P234
Trade and other receivables	(1)	(34)	1	34
	(13)	(268)	13	268
Accounts payable and accrued expenses	23	76	(23)	(76)
Lease liabilities	-	1	-	(1)
	23	77	(23)	(77)
	P10	(P191)	(P10)	P191

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall 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	**P24,185**	**P24,185**	**P24,185**	**P -**	**P -**	**P -**
Trade and other receivables - net	**5,662**	**5,662**	**5,662**	**-**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**25**	**25**	**25**	**-**	**-**	**-**
Financial assets at FVOCI	**4,837**	**4,837**	**-**	**-**	**-**	**4,837**
Noncurrent receivables (included under "Other noncurrent assets-net" account)	**12**	**12**	**-**	**4**	**7**	**1**
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	**15,990**	**15,990**	**15,990**	**-**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3**	**3**	**3**	**-**	**-**	**-**
Long-term debt (including current maturities)	**31,911**	**35,119**	**13,719**	**7,738**	**13,662**	**-**
Lease liabilities (including current portion)	**1,263**	**2,290**	**266**	**189**	**433**	**1,402**
Noncurrent liabilities	**17**	**17**	**-**	**1**	**7**	**9**

December 31, 2019

	Carrying Amount	Contractual Cash Flow	1Year or Less	> 1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P30,451	P30,451	P30,451	P -	P -	P -
Trade and other receivables - net	6,479	6,479	6,479	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	55	55	55	-	-	-
Financial assets at FVOCI	39	39	-	-	-	39
Noncurrent receivables (included under "Other noncurrent assets" account)	10	10	-	4	5	1
Financial Liabilities						
Accounts payable and accrued expenses (excluding cash dividends payable)	17,703	17,703	17,703	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	3	3	3	-	-	-
Long-term debt (including current maturities)	31,866	36,889	1,770	13,719	21,400	-
Lease liabilities (including current portion)	1,237	2,251	290	226	418	1,317
Noncurrent liabilities	17	17	-	-	4	13

Credit Risk

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

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

Trade and Other Receivables

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

The Group obtains collateral so that in the event of default, the Group would have a secured claim.

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

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)	*4*	**P23,532**	P29,730
Trade and other receivables - net	*8*	**5,662**	6,479
Derivative assets	*10*	**25**	55
Noncurrent receivables	*16*	**12**	10
		P29,231	P36,274

The table below presents the summary of the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the 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**	**Financial Assets at FVOCI**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P23,532**	**P -**	**P -**	**P -**	**P -**	**P23,532**
Trade and other receivables	**5,662**	**-**	**333**	**-**	**-**	**5,995**
Derivative assets	**-**	**-**	**-**	**25**	**-**	**25**
Noncurrent receivables	**-**	**12**	**-**	**-**	**-**	**12**

	2019					
	Financial Assets at Amortized Cost					
	12-Month ECL	Lifetime ECL not credit Impaired	Lifetime ECL - Credit Impaired	Financial Assets at FVPL	Financial Assets at FVOCI	Total
Cash and cash equivalents (excluding cash on hand)	P29,730	P -	P -	P -	P -	P29,730
Trade and other receivables	6,479	-	189	-	-	6,668
Derivative assets	-	-	-	55	-	55
Noncurrent receivables	-	10	-	-	-	10

The Group computes impairment loss on trade and other receivables based on past collection experiences, current circumstances and the impact of future economic conditions, if any, available at the reporting period. Loss rates are based on actual credit loss experience over the past two years. Any adjustment to the loss rates for forecasts of future economic conditions are not expected to be material. The Group applies the simplified approach in providing for ECL prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix. The maturity of the Group's trade and other receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

The following tables provides information about the exposure to credit risk and ECL of trade and other receivables:

2020

	Gross Carrying Amount		**ECL Rate**		
Aging	**Trade Receivables**	**Other Receivables**	**Trade Receivables**	**Other Receivables**	**ECL Amount**
Current	**P4,592**	**P521**	**0.89%**	**8.97%**	**P88**
Past due					
Less than 30 days	**403**	**23**	**1.07%**	**11.28%**	**7**
30 - 60 days	**38**	**16**	**13.60%**	**33.03%**	**10**
61 - 90 days	**16**	**32**	**6.55%**	**25.12%**	**9**
Over 90 days	**136**	**218**	**86.76%**	**46.36%**	**219**
	P5,185	**P810**	**3.28%**	**20.20%**	**P333**

2019

	Gross Carrying Amount		ECL Rate		
Aging	Trade Receivables	Other Receivables	Trade Receivables	Other Receivables	ECL Amount
Current	P5,101	P709	0.40%	5.74%	P61
Past due					
Less than 30 days	561	64	1.80%	12.96%	18
30 - 60 days	35	5	22.13%	52.90%	11
61 - 90 days	23	13	0.83%	14.03%	2
Over 90 days	112	45	71.02%	37.92%	97
	P5,832	P836	2.03%	8.46%	P189

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

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

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

Capital Management

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

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

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

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

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

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

34. Financial Assets and Financial Liabilities

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

	December 31, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P24,185**	**P24,185**	P30,451	P30,451
Trade and other receivables - net	**5,662**	**5,662**	6,479	6,479
Derivative assets (included under "Prepaid expenses and other current assets" account)	**25**	**25**	55	55
Financial assets at FVOCI	**4,837**	**4,837**	39	39
Noncurrent receivables (included under "Other noncurrent assets-net" account)	**12**	**12**	10	10
Financial Liabilities				
Accounts payable and accrued expenses (excluding cash dividends payable)	**15,990**	**15,990**	17,703	17,703
Derivative liabilities (included under "Accounts payable and accrued expenses" account)	**3**	**3**	3	3
Long-term debt (including current maturities)	**31,911**	**33,759**	31,866	33,151

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

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

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. Fair values for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

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

Accounts Payable and Accrued Expenses. The carrying amount of accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Loan payable and Long-term Debt. The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instrument as of reporting date. As of December 31, 2020 and 2019, discount rates used ranged from 1.11% to 2.31% and from 3.20% to 4.07, respectively.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of embedded derivative financial instruments that are not designated as hedges are discussed below.

Derivative Instruments Not Designated as Hedges

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

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US$21 and US$41 as of December 31, 2020 and 2019, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The net positive fair value of these embedded currency forwards amounted to P22 and P52 in 2020 and 2019, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to P36, P130 and (P1) in 2020, 2019 and 2018, respectively (Note 26).

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	**P52**	(P27)
Net change in fair value of non-accounting hedges	**36**	130
	88	103
Less fair value of settled instruments	**(66)**	(51)
Balance at end of year	**P22**	P52

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 -**	**P25**	**P25**	P -	P55	P55
Financial assets at FVOCI	**4,837**	**-**	**4,837**	39	-	39
Financial Liabilities						
Derivative liabilities	**-**	**3**	**3**	-	3	3

As of December 31, 2020 and 2019, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

35. Other Matters

a. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2020 amounted to P8,011.

Amount authorized but not yet disbursed for capital projects as of December 31, 2020 is approximately P11,597.

b. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso in 2020 and 2019 were closing rates of P48.02 and P50.64, respectively, for consolidated statements of financial position accounts, and average rates of P49.62, P51.79 and P52.69 in 2020, 2019 and 2018, respectively, for income and expense accounts.

c. *Claims for Tax Refund*

Filed by SMC

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

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

On January 25, 2017, the Supreme Court decided in the consolidated cases of GR Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period December 1, 2005 to July 31, 2007, and P782 for the period February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the CTA, SMC filed a motion for execution in CTA Case Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 representing refund of excess taxes erroneously collected by the BIR for the period of February 2, 2004 to November 30, 2005; and another separate motion for execution in CTA Case No. 7708 on the final judgment of P926 for the period of December 1, 2005 to July 31, 2007. On April 4, 2019, the Writ of Execution in CTA Case No. 7708 was issued by the Court and subsequently served on the BIR Commissioner, and on April 11, 2019, the Writ of Execution in CTA Case No. 7405 (consolidated with CTA Cases Nos. 7052 and 7053) was also issued and served on the Commissioner.

The BIR issued ITS TCC Trans No. 121-20-00012 and 121-20-00013 amounting to P782 for CTA Case No. 7405 and P926 for CTA Case No. 7708, respectively in favor of SMC on September 8, 2020.

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

The BIR issued ITS TCC Trans No. 121-20-00010 amounting to P105 in favor of SMC on August 10, 2020.

Filed by SMB

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

SMB filed 12 claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) Fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 19, 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 22, 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 28, 2016);

(i) ninth claim for refund of overpayments for the period of January 1, 2016 to December 31, 2016 - First Division docketed as CTA Case No. 9743 (December 29, 2017);

(j) tenth claim for refund of overpayments for the period of January 1, 2017 to December 31, 2017 - Third Division docketed as CTA Case No. 10000 (December 27, 2018);

(k) eleventh claim for refund of overpayments for the period of January 1, 2018 to December 31, 2018 - First Division docketed as CTA Case No. 10223 (December 6, 2019); and

(l) twelfth claim for refund of overpayments for the period of January 1, 2019 to December 31, 2019 - Third Division docketed as CTA Case No. 10421 (December 16, 2020)

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P829 and the amount of P105 to SMC. The BIR appealed to the CTA En Banc which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. The Writ of Execution was issued on March 18, 2019 by the CTA Special Second Division in the amount of P829. SMB filed an application for the issuance of a TCC with the BIR.

The ITS TCC Trans No. 121-20-00009 was issued by the BIR in favor of SMB on August 10, 2020 in the amount of P829. P809 out of P829 was partially applied to SMB's 2020 tax obligations.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division, ordering the BIR to refund the amount of P731. The case was not elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of P731, while the BIR filed a Petition for Certiorari before the Supreme Court (docketed as GR No. 221790). The Petition for Certiorari was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB received a clarificatory Resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's Petition for Certiorari and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB, filed an application for the issuance of a TCC in the amount of P731. On November 6, 2019, the BIR issued ITS TCC Trans No. 121-19-00010 in favor of SMB which was fully utilized against SMB's tax obligations in 2020.

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CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA En Banc. The BIR was ordered to refund to SMB the amount of P699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the Supreme Court through its July 24, 2017 Resolution. With the decision in favor of SMB, SMB, moved for the execution of the decision on January 23, 2019 as the records of the case were already returned to the CTA. On May 30, 2019, CTA Special Third Division issued a Writ of Execution in the amount of P699 in favor of SMB. SMB filed an application for TCC issuance. The BIR issued ITS TCC Trans No. 121-19-00009 in favor of SMB on November 13, 2019 which was fully utilized against SMB's tax obligations in 2020.

CTA Case No. 8591 was decided in favor of SMB by the CTA Second Division and CTA En Banc. The BIR was ordered to refund to SMB the amount of P740. The BIR elevated the case to the Supreme Court by way of petition for review (docketed as GR No. 232776), where it was denied on February 21, 2018. The BIR filed a Motion for Reconsideration, which was denied with finality on July 23, 2018. SMB filed a motion for the execution of the decision with the CTA Second Division. The CTA Second Division issued a Writ of Execution in the amount of P740 on November 13, 2019. SMB filed an application for TCC with the BIR in January 2020 which was issued on August 10, 2020. The said ITS TCC Trans No. 121-20-00008 with an amount of P740 has been fully utilized against SMB's tax obligations in 2020.

CTA Case No. 8748 was decided in favor of SMB by the CTA Second Division, ordering the BIR to refund to SMB the amount of P761. The BIR appealed the decision to the CTA En Banc by way of a Petition for Review, which was denied on October 11, 2018. A Motion for Reconsideration was filed by the BIR on November 5, 2018 (docketed as CTA EB Case No. 1730) to which SMB filed an opposition. The CTA En Banc denied BIR's Motion for Reconsideration. Thus, the BIR filed a Petition for Review with the Supreme Court in June 2019. The case is still pending with the Supreme Court.

CTA Case No. 8955, SMB's claim for refund for P83, was decided against SMB by the CTA Third Division for having purportedly availed of the wrong mode of appeal as SMB should have filed the petition with the Regional Trial Court rather than through a collateral attack on issuances of the BIR via a judicial claim for refund. SMB, through counsel, filed a Motion for Reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. With the denial of SMB's Motion for Reconsideration on January 5, 2018, SMB elevated the case to the CTA En Banc by way of a Petition for Review. On September 19, 2018, the CTA En Banc reversed and set aside the decision of the CTA Third Division and remanded the case to the CTA Third Division for the resolution of the same on the merits (docketed as CTA EB Case No. 1772). A Motion for Reconsideration was filed by the BIR which was subsequently denied by the CTA En Banc in a resolution dated January 24, 2019. The BIR sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 244738. After the BIR filed a Manifestation stating that it will no longer file a Petition for Review on Certiorari, the Supreme Court issued a Resolution dated January 8, 2020 considering the case closed and terminated. The records have been remanded and the case is now pending with the CTA Third Division.

CTA Case No. 9223, SMB's claim for refund for P60, was partially decided in favor of SMB by the CTA Third Division. From the CTA Third Division, SMB and the BIR filed separate Petitions for Review with the CTA En Banc where the case is pending.

CTA Case No. 9513, SMB's claim for refund for P48, was partially decided in favor of SMB by the CTA Second Division. From the CTA Second Division, SMB and the BIR filed separate Petitions for Review with the CTA En Banc where the case is pending.

CTA Case No. 9743, SMB's claim for refund for P30, was partially decided in favor of SMB by the CTA First Division. The Motion for Partial New Trial of SMB and Motion for Reconsideration filed by SMB and the BIR were denied. Both parties filed their respective Petition for Review with the CTA En Banc where the case is pending.

CTA Case No. 10000, SMB's claim for refund for P122, was filed on December 27, 2018 and is pending with the CTA Third Division.

CTA Case No. 10223, SMB's claim for refund for P147, was filed on December 11, 2019 and is pending with the CTA First Division.

CTA Case No. 10421, SMB's claim for refund for P162, was filed on December 16, 2020 and is pending with the CTA Third Division.

d. *Pending Tax Cases*

i. IBI

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

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the CTA First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA En Banc and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA En Banc. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA En Banc rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motion for Reconsideration, which were denied by CTA En Banc in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Review on September 7, 2018 docketed as G.R.Nos. 241147-48 and was raffled to the First Division of the Supreme Court. On the other hand, the BIR's Petition was docketed as G.R. nos. 240651 and 240665 and was raffled to the Second Division of the Supreme Court.

On January 16, 2019, the Supreme Court denied IBI's Petition to which a Motion for Reconsideration was filed by IBI on April 5, 2019.

On March 11, 2019, the Supreme Court issued a Resolution requiring IBI to file its comment to the BIR's Petition. IBI filed its Comment on June 17, 2019.

On December 16, 2019, IBI and the BIR executed a Compromise Agreement. The BIR recognized the total payment of IBI in the amount of P285 as full satisfaction of the latter's supposed tax liability for taxable year 2009. The BIR further acknowledged that IBI no longer has any tax liability based upon, arising from, or in connection with CTA Case No. 8607.

In its Manifestation and Motion dated January 28, 2020 filed before the Supreme Court, the BIR confirmed the execution of a Compromise Agreement in connection with its pending Petition for Review and sought permission to be allowed to withdraw its Petition for Review docketed as G.R. Nos. 240651 and 240665.

The case is still pending with the Supreme Court for resolution.

(b) On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA En Banc (docketed as CTA Case EB No. 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of P110, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA En Banc did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus, IBI was ordered to pay a modified amount of P501 in light of the TRAIN Law amendments on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA En Banc has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR. As of December 31, 2018, IBI recognized a provision amounting to P52.

Noting the BIR's failure to file its Comment/Opposition, the Court issued a Resolution dated April 17, 2019, which IBI received on May 9, 2019, denying the BIR's Motion for Partial Reconsideration of the CTA En Banc Decision promulgated on September 18, 2018 and partially granting the Motion for Reconsideration filed by IBI of the said CTA En Banc Decision.

IBI and the BIR filed their respective Petitions for Review with the Supreme Court docketed as G.R. Nos. 246911 and 246865, respectively. Both Petitions were consolidated by the Supreme Court through a Resolution dated July 1, 2019.

On December 27, 2019 IBI filed a Manifestation informing the Supreme Court that on December 5, 2019 and December 16, 2019, IBI and the BIR, respectively, executed a Compromise Agreement to amicably settle IBI's deficiency taxes for taxable year 2010. In its Manifestation dated February 26, 2020, the BIR confirmed receipt of payment pursuant to the Compromise Agreement executed between the IBI and the BIR.

On September 2, 2020, the Supreme Court issued a Resolution requiring IBI and the BIR to manifest whether they consider the case closed and terminated. In compliance, IBI filed its manifestation on September 14, 2020. On December 3, 2020, IBI received a Manifestation filed by the BIR manifesting that in view of its receipt of certified true copy of Certificate of Availment (Compromise Settlement), the BIR considers the cases as closed.

The case is still pending with the Supreme Court for resolution.

(c) On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. In the meantime, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending at the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three (3) Divisions of the Court.

On March 2, 2020, the CTA First Division promulgated its Decision partially granting IBI's Petition for Review. The assessment for deficiency income tax, VAT, documentary stamp tax and compromise penalty were cancelled and set aside. However, the assessment for deficiency expanded withholding tax was affirmed, and IBI was ordered to pay deficiency expanded withholding tax including interest and surcharges amounting to P5.

On October 29, 2020, the BIR filed a Petition for Review with CTA *En Banc.* On January 25, 2021, IBI filed its Comment to the Petition for Review.

The CTA *En Banc* promulgated a Resolution on February 4, 2021 noting IBI's Comment to the Petition for Review, and referring the case for mediation in the Philippine Mediation Center - Court of Tax Appeals.

e. Amendment of Amended Articles of Incorporation

On December 4, 2020, the BOD of the Company approved the amendment of the Company's primary purpose or Article II of its Amended Articles of Incorporation to include alcoholic beverages and such other beverages of all kinds and classes as among the products it is authorized to manufacture, sell or otherwise deal in and to submit the same for the approval of the Company's stockholders by written assent. The Company received the written assent of stockholders representing more than two-thirds (2/3) of the Company's total outstanding capital stock to the proposed amendment as of February 24, 2021 and filed an application to the SEC for the approval of the said amendment thereafter. The Company's application is pending with the SEC as of the reporting date.

f. Effect of COVID-19

On March 8, 2020, under Proclamation No. 922, the Office of the President declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation No. 929, a state of calamity was declared throughout the Philippines due to the spread of COVID-19 for a period of six months and an enhanced community quarantine (ECQ) was imposed in the island of Luzon, including Metro Manila, from March 15, 2020 to May 15, 2020. The ECQ guidelines included restrictions on movements outside the residence, ranging from stay-at-home to total lockdowns, suspension of mass transport facilities, closure of schools, and implementation of alternative work arrangements. Only essential businesses were allowed to operate, subject to certain conditions and limitations on operating capacity.

The ECQ was eased starting May 16, 2020 with the government converting the ECQ in most cities, including Metro Manila and Cebu, to a modified enhanced community quarantine (MECQ) until May 31, 2020, while some regions were placed under either a general community quarantine (GCQ) or a modified general community quarantine (MGCQ). On June 1, 2020, the National Capital Region was placed under GCQ which allowed certain business sectors to resume full operations such as agriculture, food manufacturing and all supply chains, and certain forms of public transportation. On August 4, 2020, the National Capital Region was again placed under MECQ until August 31, 2020, in view of the continuing rise of COVID-19 cases. The National Capital Region has been reverted back to GCQ on September 1, 2020 and GCQ has been in effect in the National Capital Region as at the reporting date.

Despite a strong start in the first two months of 2020, the Company was significantly affected by the implementation of the ECQ, alcoholic beverage bans, and temporary closure of on-premise and off-premise outlets and other restrictions in movement and operating capacity of businesses implemented by the Philippine government due to COVID-19. The government's easing of restrictions by mid-May, including lifting of alcoholic beverage bans, and careful re-opening of the economy had an immediate positive effect on the Company's operations, resulting in the gradual recovery of its sales volume.

For the Group's international operations, the COVID-19 situation resulted in significant decline in demand for beer, especially during the end of the first quarter to the second quarter of 2020, as governments implemented safety measures, through varying degrees of lockdown, alcohol consumption bans as well as travel and delivery restrictions in most business units and export markets. Due to the pandemic, a shift in consumption pattern has been observed from on-premise to home consumption on account of the government-mandated closures of retail establishments such as bars and restaurants as well as other safety measures to prevent the spread of the virus. In addition, the ban on international travel likewise affected tourist-dependent markets adversely.

The Group showed significant improvements in the second half of the year delivering higher revenues compared to the first half of the year. However, in spite of these improvements, the Group's consolidated sales and operating income for the year remained lower than 2019, due to the impact of the government-imposed restrictions to prevent the spread of COVID-19.

The extent to which the COVID-19 pandemic impacts the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to control the spread of the virus and mitigate its impact, both in the Philippines and in countries where the Group has operations, the condition of healthcare providers, the availability of healthcare resources, the health system participants, and the other businesses and individuals, which are highly uncertain and cannot be predicted.

36. Event After Reporting Date

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 the President of the Philippines to be enacted into law.

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

As the bill has not been enacted into law, current and deferred taxes are measured using the applicable income tax rates as at December 31, 2020.

Should the CREATE bill be enacted 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:

ASSETS	
Deferred tax assets	**(P127)**
LIABILITIES AND EQUITY	
Income and other taxes payable	**P553**
Equity reserves	**101**
Retained earnings	**(527)**
	P127
Provision for income tax:	
Current	**(P552)**
Deferred	**25**
	(P527)
Net Income Attributable to:	
Equity holders of the Parent Company	**P527**

Contact Us

CORPORATE HEAD OFFICE
San Miguel Brewery Inc.
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
P.O. Box 271 Manila
Central Post Office, Philippines
Telephone: (632) 8632-3000
Website: http://www.sanmiguelbrewery.com.ph

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

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

SMC STOCK TRANSFER SERVICE CORPORATION
The Company's Annual Stockholder's Meeting is held every last Tuesday of May.

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

Investor Relations
San Miguel Brewery Inc.
Telephone: (632) 8632-3000
Fax: (632) 8632-3313 / 3749

CUSTOMER AND CONSUMER SERVICES
For inquiries, and requests, please write or call Beer Account SMC-1 customer hotline.

Telephone: (632) 9632-2000
Toll-free No: 1-800-1-888-762-1
Fax: (532) 8632-3299 routing code 2005


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