
# FUTURE FORWARD

**2021** ANNUAL REPORT

SAN MIGUEL
BREWERY INC.

# MISSION & 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!

# FUTURE FORWARD

The pandemic has revealed opportunities for us to improve our business and make it more resilient. These programs include revisiting our entire product portfolio, going-to-market approach, and total value chain to ensure that our company will not only survive and recover, but thrive in a post-pandemic world. One of these opportunities is ensuring that the production of our world-class quality products does not end up damaging nature. We advocate sustainable development by collecting, reusing and upscaling from the sourcing of our raw materials to the disposal of our by-products and effluents. Now that the economy is opening up again, we are one step ahead and future forward.

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# MESSAGE FROM TOP MANAGEMENT

San Miguel Brewery Inc. (SMB) entered 2021 driven to recover from the debilitating ordeal that the world endured because of the coronavirus disease of 2019 (COVID-19) pandemic. Equipped with knowledge on the volatility of the health crisis and armed with enough lessons learned from navigating through tiers of restrictions in 2020, we came in prepared to face an expectedly challenging and unusual year.

Despite the sweeping liquor bans and heightened restrictions that lasted on and off for months, the company started recovery as it returned to growth mode. SMB's consolidated revenues grew to P116.3 billion. Volumes slightly improved on the back of stronger sales programs, engagement in relevant consumer promotions and homegrown campaigns. Operating income totaled P26.9 billion driven by stronger cost management initiatives.

With the surges in COVID-19 cases caused by the spread of different variants of the virus, the company adjusted its operations and calibrated its projections. Through it all, SMB remained resolute by focusing its thrust on business recovery and revitalizing the market, undaunted by the setbacks.

Amidst a difficult operating climate, the company ensured business continuity of operations given the government's strict health protocols. We recognize that in order for us to develop a healthier and more resilient workforce, the organization's primary objective was to protect our employees from the threat of the virus. We achieved this under San Miguel Corporation's (SMC) Ligtas Lahat Vaccination Program where 98% of our regular workforce have been fully vaccinated by the end of 2021. We also aided our business partners, third-party service providers, and employee dependents in getting inoculated. These efforts support the overwhelming call for citizens to do their part in achieving herd immunity and bring us one step closer to finally ending the pandemic.

While strides have been made in prioritizing the safety of our employees and business partners, we have also taken the necessary steps to cope with disruptions in operations caused by varying levels of restrictions required by public authorities. We have made our work spaces safer by observing health protocols and regular COVID-19 testing, and at the same time investing in information technology solutions, that enabled our employees to operate under flexible work arrangements.

> "We were able to nurture our connections with our target markets while looking to cater to new demands."

The economy gaining its footing towards the middle part of the year was a boon for the company as local industries and services started to recover, as consumer spending picked up. Employment likewise improved which further drove demand upward. Owing to these developments, the company's volumes improved versus that of the previous year as we continued to channel our efforts on brand visibility and product offtake-generating programs.

By focusing our efforts on launching fresh campaigns, implementing consumer promotions, exploring opportunities in modern trade, and, with strict compliance to government guidelines, supporting the recovery of on-premise selling, we were able to nurture our connections with our target markets while looking to cater to new demands.

With market behavior revealing new consumption patterns, one way we adapted is by introducing a new brand. In September, we released Red Horse Super, an extra strong brew offering drinkers a hefty 10% ABV (alcohol by volume). The new offering was initially made available in selected areas in Luzon.

The company's firm disposition, considering the peaks and valleys we experienced throughout the year, speaks of the grit of the Beermen spirit. Together, we took the blows and endured the hardest challenges we encountered. This spirit was on display with the prolonged COVID-19 pandemic coupled with weather disturbances, particularly typhoon Odette which battered areas across the Visayas and Mindanao, and hit some parts of Luzon.

The massive damage inflicted upon communities impelled us to live by our value of MALASAKIT by extending assistance to those in need. Aside from taking care of the needs of those of our own, the inherently caring nature of Beermen inevitably took over as they, in turn, attended to the needs of the others in their own networks.

We are so proud of our people. From the management supporting its workforce and the community, and the workforce themselves supporting their respective communities, the goodwill spreads like ripples that our nation needs right now.

"What we are seeing now is the result of the hard work of our senior management team and untiring efforts of more than 3,000 strong Beermen."

Our commitment towards improving our systems and processes to continue delivering value to our stakeholders is as strong as ever. Moreover, we continue to ingrain sustainability and adopt sustainable practices to better enable our organization to further contribute to the collective good. How we integrate sustainability in our business process is inherent in our organization.

Like in the case of our returnable glass bottles, we pushed for our Balik Bote program as a way to continuously help protect the environment. We also forged partnerships with farmer groups through the Department of Agriculture where our spent grain is used as animal feeds and dewatered sludge is turned into fertilizer for agricultural crops.

What we are seeing now is the result of the hard work of our senior management team and the untiring efforts of more than 3,000 strong Beermen.

Never have we felt more confident about SMB's future.

Regardless of how much longer we need to grapple with the disruptions, whether COVID-19 induced or otherwise, the company and our people are prepared to take on the challenge, to achieve our collective goals, and to build an enduring business that helps communities thrive.

Onward we go to the next level as we move past the challenges. We have been one step ahead and future forward.

**Ramon S. Ang**
Chairman of the Board

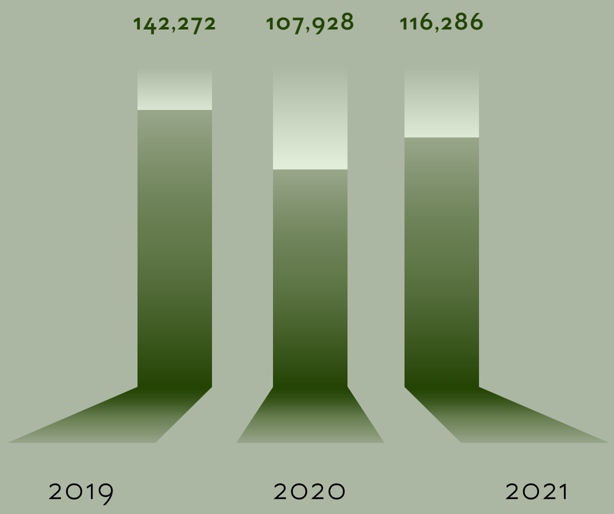
**Roberto N. Huang**
President

Kahit Kailan,
Walang Iwanan!
**S**ulong,
**M**agkaisa,
**B**angon!
Angat **SMB**!

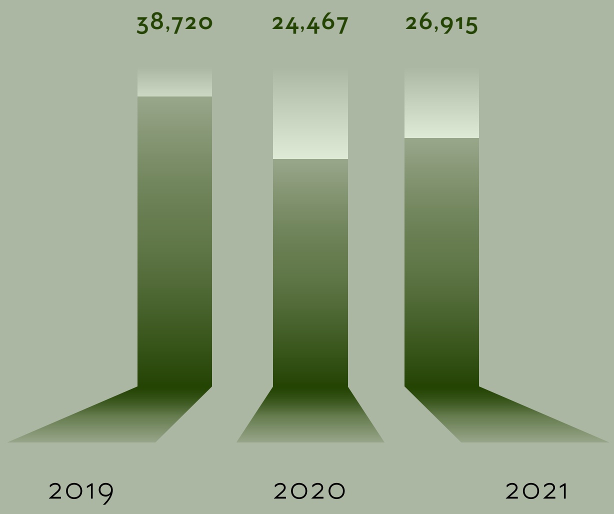
# FINANCIAL HIGHLIGHTS

For the years 2019-2021 in Peso Millions

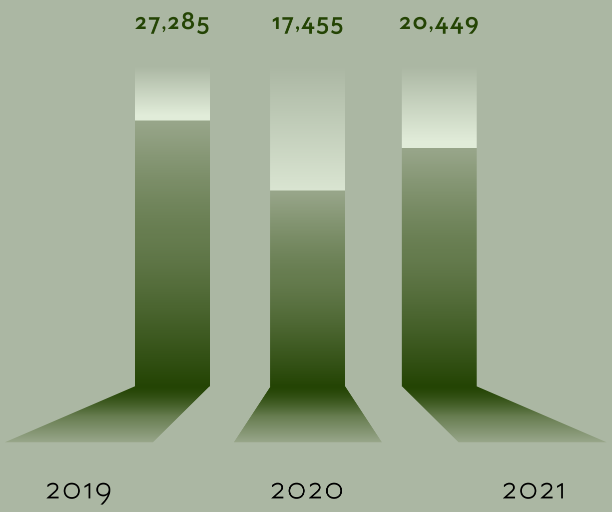
## Revenue




## Operating Income




## Net Income



# MANAGEMENT'S DISCUSSION & ANALYSIS

San Miguel Brewery Inc. (SMB) posted an uptick in profit with the gradual improvement of the economy as industries and consumers adjust to the prolonged COVID-19 pandemic.

SMB's consolidated revenue amounted to P116.3 billion, while operating income increased to P26.9 billion. Net income amounted to P20.4 billion.

## Domestic Operations

In 2021, the Philippine economy started to gradually reopen, triggering a moderate growth in SMB's performance. Alcoholic and non-alcoholic beverage (NAB) volumes both improved versus year-ago level due to stronger consumption-generation efforts.

The company exhibited higher beer volumes largely due to geo-targeted programs, both above-the-line and below-the-line, to increase consumer engagement and trigger product offtake. NAB volumes, on the other hand, significantly increased compared to last year due to improved product availability.

To generate and rejuvenate demand, the company developed activation initiatives for its brands, including consumer promotions and homegrown campaigns whose messaging engaged and resonated with their respective target consumers.


Flagship brand **San Miguel Pale Pilsen** maintained its efforts to promote responsible drinking during the pandemic with its "Beer Call Muna Tayo" campaign. Brand initiatives were backed by seasonal activations and offtake generating programs which involved a healthy combination of traditional and non-traditional approaches to connect to loyal customers of the iconic beer.


Extra strong **Red Horse Beer** held on to its status as the country's No. 1 beer by staying true to its core market with thematic campaigns "Assemble Tayo" and "Patak". The brand remained the go-to brew for Filipino beer drinkers through seasonal campaigns, out-of-home placements, online presence, and consumer promotions, while keeping a hold on the rock music community with its "Muziknuman" video series.

The country's first local zero alcohol beer **San Mig Free** ramped up efforts to raise awareness of the brand with digital activations, out-of-home placements, and trial-generating promos. This was supported by online materials, postering efforts, and volume-generating and re-penetration initiatives. The company's line-up of NAB products sustained its presence with **Magnolia Fruit Drink** and **Magnolia HealthTea**'s "Refresharap" and **Cali**'s "Cali Days" radio advertisements.

Low calorie beer **San Mig Light** shifted from its all-night party niche to appeal to a more active and engaged consumer base with its "Bright Side" and "Imagine" campaigns. Creating buzz and encouraging discourse through different platforms, the brand utilized interactive online activations and targeted consumer promotions to reach its target market.

#Sweeeet **San Miguel Flavored Beer** banked on its "Change" campaign to reflect the young and spontaneous personalities of its fan base. The brand responded to the enthusiasm of its market with digital activations, volume generating initiatives, and merchandising efforts, all tied to its core "Make Life Sweet" message.


Regional pride **Gold Eagle Beer** utilized both above-the-line and below-the-line platforms to stay in touch with its patrons using radio commercials, out-of-home installations, and "Pugad Agila" and "Jamming sa Tindahan" programs. **San Mig Zero** continued to build the brand's affinity with the silver market through online content, out-of-home materials, and consumer programs.


Continuing to adapt to the preferences of its customers, SMB expanded its portfolio by launching the new **Red Horse Super** on a limited basis. Considered to be the strongest locally-produced beer in the market, the new product boasts of a robust 10% ABV (alcohol by volume) and packaged in a 1-liter returnable glass bottle. Introduced to the market through community billboards and posters, initial returns from geo-targeted releases have been favorable with with loyal drinkers expressing eagerness for the new product through various social platforms.


San Miguel Premium Beers, **San Miguel Premium All-Malt, Cervesa Negra, San Miguel Super Dry,** and **Kirin Ichiban** began re-penetrating promotions in select bars to slowly re-introduce the brands to on-premise consumption. This was supported by e-premise presence as well as content that appealed to the culinary-inclined with their "Cooking with SMB" videos.


In 2021, San Miguel Beer ushered in high hopes with its thematic campaign "Cheers". The optimistic undertone was sustained throughout the year with various digital activations and channel-specific initiatives. In lieu of SMB's annual Oktoberfest beer and music festival, the company launched the Instant GCash Panalo ng San Miguel Oktoberfest Under-the-Crown Promotion that boosted sales through the chance to win instant rewards in partnership with Globe GCash (G-Xchange, Inc.).

To cap off the year, **San Miguel Pale Pilsen** released the **"IconiCan",** a limited-edition release that featured the artistic collaboration of two iconic Filipino artists. Showcasing the works of the late cartoonist Larry Alcala and award-winning illustrator Rob Cham, the IconiCan immortalized a graphic depiction of past and present Filipino culture wrapped around a San Miguel Pale Pilsen can.

Other innovations in packaging and product design were likewise introduced, including the offering of mead-packs for canned beers as well as the production of ACL (applied ceramic label) bottles for the apple variants of **San Miguel Flavored Beer** and **Magnolia HealthTea.**

The company strengthened its sales programs to drive volume recovery. These included channel-specific programs which saw attention to tertiary outlets intensified, opportunities on modern trade and e-commerce platforms capitalized, and catering to on-premise volume generation slowly re-introduced. Signages, cooling support, outdoor lighted signs, health and safety reminders, and other merchandising materials were utilized to increase presence and drive awareness. As the country's health and safety situation stabilized, more people were allowed to go out of their homes, which provided an opportunity for trade visibility.

On the backend of trade, the company implemented efficiency enhancements by extending promotion coverages, providing credit flexibility, penetrating additional outlets, and maintaining constant communication with key trade partners. In line with strengthening relations, the company expanded its services with business partners by enhancing its wholesaler system, adding options for cashless transactions, adapting digital solutions, and building a more robust platform for SMB Delivers.

Anchored on following business continuity plans, additional effort was exerted to move NAB products along with the recently released zero alcohol beer San Mig Free to continue catering to the changing preferences of consumers and to tap opportunities in profitable areas.

Another key initiative of the company is enhancing its supply chain for flexibility and agility, while upholding its quality productivity programs. To this end, SMB has improved its sourcing scheme, assessed and utilized best delivery routes, implemented contingency plans to ensure supply and manage inventory, and broadened material sourcing. In addition to these, the company sustained its cost management practices by optimizing production schedule and efficiency, implementing manufacturing cost reduction programs, and exploring alternative materials. These efforts were also buoyed by refining the collection of glass bottles of the company dubbed as the “Balik Bote” program.



Product excellence, one of the pillars of SMB’s core values, continues to be at the forefront of the company’s priorities. Further to this commitment, the company’s production facilities have strived to meet production standards. This year, on top of having received the CGMP (Current Good Manufacturing Practices) certification, our Polo Brewery obtained its first Food Safety System Compliance (FSSC) certification, while our San Fernando Brewery, Bacolod Brewery, Mandaue Brewery, Davao Brewery, and Tagoloan Brewery all received their CGMP certification. In addition, our San Fernando Brewery and Bacolod Brewery also received their HACCP (Hard Analysis and Critical Control Points) certification as well, while Polo Brewery, Mandaue Brewery, Davao Brewery, and Tagoloan Brewery are currently working on the renewal of their respective HACCP certification. Renewal of CGMP certification has been applied for by Santa Rosa Brewery.

Furthermore, SMB focused on improving critical maintenance projects and safety and environment initiatives, while ensuring the readiness of production facilities to support the manufacture of new products.

In response to the COVID-19-induced restrictions and disruptions, SMB pursued capability-building initiatives across the organization and labored to ensure business continuity. Monitoring activities provided the baseline data for the campaign through strategic checkpoint meetings, scenario planning, and regular reviews.

In order to protect the bottom-line, periodic financial analyses were conducted while cost movements were closely monitored for recalibration. The company also updated its Enterprise Risk Management system and enhanced its data gathering and monitoring processes to align with its sustainability reporting framework.

SMB recognizes the importance of ensuring a healthy workplace for all its employees. Hence, improvements on the ground began with the implementation of employee well-being and safety programs. Regular health monitoring and disinfection activities were conducted, and health kits and personal protective equipment were provided to all employees. RT-PCR tests were conducted regularly, coupled with stringent contact tracing measures to ensure that employees are protected.

Most significant of all the initiatives done by the company to protect its workforce is its massive COVID-19 vaccination drive under San Miguel Corporation's (SMC) Ligtas Lahat Vaccination Program, through which 98% of the company's employees were fully vaccinated by the end of 2021.

Business partners, third-party service providers, and employee dependents also benefited from the program, thus providing protection to the company's extended network.

Booster shots were also administered to its regular workforce before the close of the year, which carried over to the coming year as SMB aims to inoculate everyone eligible for the added dose of the vaccine.

To further equip its operations to adjust to the restrictions and subsequent flexible work arrangements, the company boosted its IT (information technology) capability by investing in digital solutions, while enacting and localizing IT security policies and guidelines to safeguard company data and IT assets.

Bolstering its IT systems has allowed the company to establish secure and stable communication lines within and among functions, as well as sustain its training and succession programs through virtual platforms.

Externally, the company received various citations for its positive impact to the industry and its host communities. Among the honors SMB earned included recognition in the 2021 Search for Sustainable and Eco-Friendly Business Establishments of the City of San Fernando, Pampanga, the Pandemic Heroes Award from the City Government of Santa Rosa, Laguna, and an appreciation for the company's active participation of the Butuanon River Rehabilitation Program of the Department of Environment and Natural Resources.

## International Operations

Despite mixed results across our various international markets, SMB's international operations showed signs of recovery as consolidated year-end volume grew in 2021. Volume growth of Indonesia and Exports

more than made up for the shortfall in **Hong Kong, South China, Vietnam** and **Thailand**, which continued to be adversely impacted by varying degrees of COVID-19 restrictions.

**San Miguel Brewing International Limited (SMBIL)** also benefited from incremental volumes generated by its newly launched wheat ale, San Miguel Cerveza Blanca, as well as growth driven by programs in the modern trade off-premise channel in several markets. As a result, total operating income was ahead of 2020, mainly driven by the volume improvement coupled with various cost management programs.

Our **Exports** operations managed to grow its performance amid the COVID-19 pandemic in 2020, and continued to exhibit volume and profit growth in 2021 despite lingering pandemic restrictions in addition to issues affecting global shipping operations. Uptrend was propelled by major markets in **United Arab Emirates** and **South Korea**, as well as incremental volumes from Australia and Africa.

**Indonesia** operations bounced back resulting from the significant improvement in sales volume pulled up by programs focused on wholesalers and distributors, as well as the market recovery in the latter part of the year. All regions posted volume growth except for Batam with the heightened COVID-19 restrictions, which dramatically affected tourism and beer consumption in the region. Operating results posted significant increase on account of higher volumes and improved margins, partly tempered by higher fixed costs.

"As a result, total operating income was ahead of 2020, mainly driven by the volume improvement coupled with various cost management programs."

SMBIL did not renew, upon expiry, the joint venture agreement in Guangzhou San Miguel Brewery Co. Ltd. (GSMB), one of its two subsidiaries in Guangdong Province, in order to consolidate its sales, marketing and brewing functions into San Miguel Guangdong Brewery Co. Ltd. (SMGB) and to improve the cost structure and efficiency of its operations in South China.

The year 2021 marked the first full year since the cessation of GSMB's operations last November 30, 2020. Since then, the company managed the smooth transition of GSMB's sales and marketing operations into SMGB.

**South China** operations registered profit improvement largely on the back of higher export volumes and managed fixed costs. Meanwhile, domestic sales were heavily impacted by varying levels of lockdowns across the South China region beginning 2021.

Total production was significantly higher buoyed by strong growth in export volumes.

While our **Hong Kong**'s domestic volume for 2021 was slightly behind the previous year, this outperformed the industry which saw total volume drop by a higher rate for the year. Volume from the wholesaler channel grew by double-digit but was negated by shortfall in retail chains and sustained downtrend in the on-premise channel due to COVID-19 restrictions. Total production volume for 2021 was at par compared to year-ago level due to increase in export volumes. Operating income was lower than 2020 due to higher production costs and an effective increase in fixed costs as last year's Employment Support Scheme (ESS) subsidy was no longer offered by the government in 2021.

In **Vietnam**, domestic sales continued to slide as a result of outlet and business closures for most of the year. Incremental volume of recently-introduced San Miguel Cerveza Blanca and San Miguel Flavored Beer Lychee, as well as the strong growth of the modern trade off-premise channel, were negated by declines of San Miguel and W1NBia brands in the on-premise channel. Operating profit was behind the previous year due to lower production volumes.

**Thailand** also recorded lower volume and profit in 2021 largely due to the country's surge of COVID-19 infections in the second quarter of the year. However, the volume shortfall was tempered in the second half of the year, narrowing down high double-digit decline in the first semester to a lower rate for the full year. Total production volume was slightly above 2020 due to growth in exports production.

## MARKETING HIGHLIGHTS

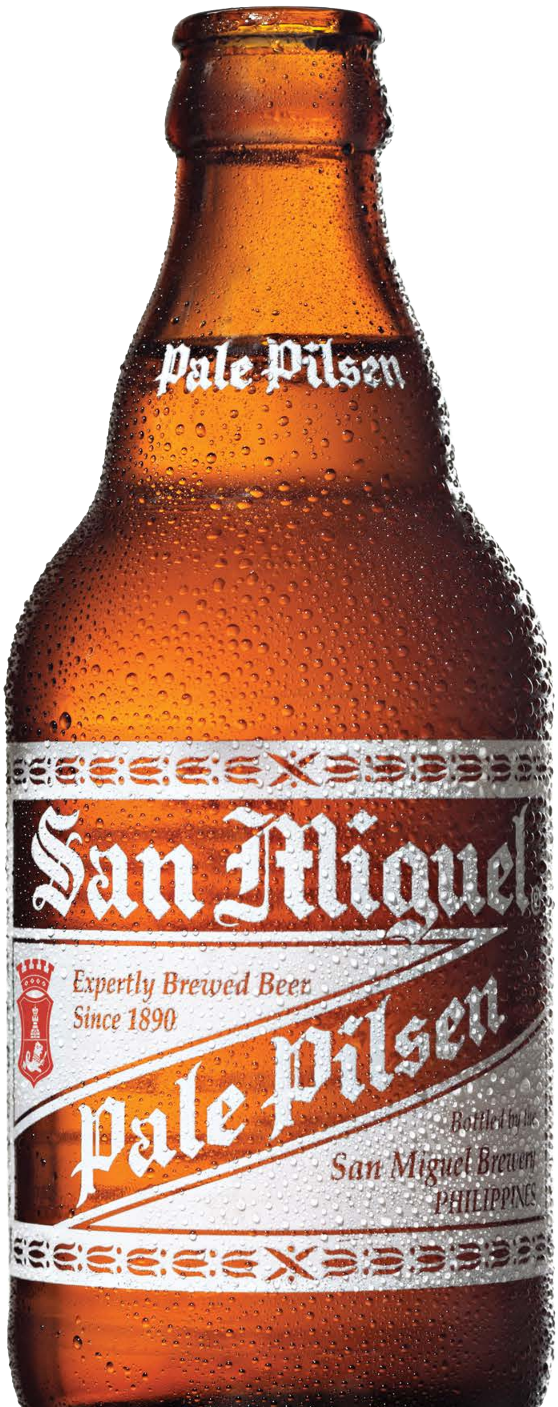
# EMBRACING INNOVATION

*Navigating a volatile landscape with messages that endure*

With the purpose of delivering a message that uplifts and inspires, the company exhausted allowable avenues to engage consumers with its diverse brands. In addition to widening its coverage, SMB explored novel ways for drinkers to interact with the company's products. This in turn, triggered by the global health crisis, accelerated how brands develop campaigns, execute programs, and measure success. The outcome is a structure that embraces innovation - delivering substance that reflects the heart of what the company aspires to communicate to its audience, to persevere, overcome, and celebrate life.

# SAN MIGUEL PALE PILSEN

Flagship brand San Miguel Pale Pilsen rolled out thematic and tactical initiatives using its **"Kahit Kailan, Walang Iwanan"** message. It encouraged consumers to foster their relationships in the new normal through the campaign, **"Beer Call Muna Tayo"**, while promoting togetherness despite the imposed COVID-19-related restrictions through executions such as "Reconnect Sinulog" virtual activation, "Summer Babad Challenge" with Beermen digital videos, "Unusually Usual Father's Day Gifts" promotion, and "12 Games of Christmas" online content. In addition to encouraging connections among peers, the brand also bridged the gap between generations with the release of its "IconiCan".



# RED HORSE BEER


Red Horse Beer, the country's alcohol beverage market leader, offered a different avenue for its loyal rakista fanbase by spinning the brand's flagship event **"Pambansang Muziklaban"** to **"Muziknuman"**. Rock enthusiasts enjoyed a series of rock music videos featuring a mix of past "Pambansang Muziklaban" champions and local rock icons, including Kjwan, Mayonnaise, Razorback, and Wilabaliw.

# SAN MIG LIGHT




Motivated by the aspiration to make its target market feel light, San Mig Light delivered campaigns that revolved around the need to stay healthy and fit into the new normal. The year saw San Mig Light launch thematic materials **"Imagine"** and **"Inuman"**, both of which highlighted ways to enjoy the company of friends despite quarantine guidelines and restrictions to be at home due to the pandemic. Taking off from the brand's **"Mahaba-habang Usapan"** campaign, San Mig Light continued its **"Talk Series"** aiming to empower audiences through discourse. In December, SML delighted its target market with the second installment of its **"12 Days of Holiday Cheers"** which featured performances from disc jockeys (DJs) and artists from different genres. Adding to the holiday San Mig Light vibe, the brand tapped influencers to share how they celebrate the holidays through creative content. The campaign surpassed the viewership of its maiden run by 147%.

# SAN MIGUEL FLAVORED BEER

The year proved to be a challenging one for San Miguel Flavored Beer with pandemic restrictions and the emergence of multiple flavored alcoholic beverage products. Despite the difficulties, the brand still made 2021 another **#Sweeeet** year maintaining strong affinity amongst entry-point drinkers and remaining to be a trailblazer in the flavored alcoholic beverage industry. On top of the **"Change"** thematic campaign, the brand also tackled mental health, which San Miguel Flavored Beer responded to with contents that invoke positivity and good vibes. This was evident in the brand's relevant and multi-platform milestone campaigns such as **"V-Month"** in February, **"Re-Friendship Month"** in July, and **"Holidays"** in December. Consumption was fueled by the brand's year-long point-of-sale content efforts with announcements on digital and radio platforms. These were supported by the brand's **"#Sweeeet Deal"** promotion which was implemented in key off-premise outlets nationwide.


# SAN MIG FREE


One of the key innovations the company made during the pandemic was launching the country's first local zero-alcohol beer, San Mig Free. Offering a unique beer-drinking experience without the alcohol, the brand responds to the growing concern for holistic health, which has heavily influenced decision-making behavior when purchasing consumer goods. Having been in the market for over a year, San Mig Free has expanded its distribution nationwide and found its niche in the beer market by catering to consumers who crave for that refreshing beer taste but want a buzz-free brew that is perfect at any time of the day. With its light taste and pleasant aroma, the brand is ready to elevate beer-drinking experience and establish itself in the category by indulging the growing market of SMB with a delightful non-alcohol beer option.


The **"Instant GCash Panalo ng San Miguel Oktoberfest Under-the-Crown Promotion"** was among the first real-time cash seeding execution with the country's frontrunner e-wallet facility, GCash. Millions of unique alpha-numeric codes were printed under the crowns of SMB's beer products and distributed across all regions and sales channels nationwide. Drinkers instantly received cash prizes through their GCash accounts at the comfort of their favorite drinking spots at home. From Manila to Ifugao, Catanduanes to Siquijor, South Cotabato to Dinagat Islands, the level of consumer participation and online engagement was outstanding.



# MODERN TRADE

*Aggressive Expansion in the Modern Trade Off-Premise Channel*

In 2021, SMBIL continued to capitalize on the shift to home consumption by accelerating growth of the modern trade off-premise channel. In most of our markets, we increased presence in hypermarkets, supermarkets and convenience stores via penetration of new accounts, complemented by consumer activities such as gift sets and lucky draw promotions as well display and merchandising programs to help boost sales and visibility of our brands. We also expanded multipack offering and availability to further maximize growth in modern trade off-premise outlets.



Synonymous to producing world-class brews, San Miguel Beer brands also received multiple awards in the field of marketing and advertising, winning Gold from the Kidlat Awards for Best Music/Sound Design for San Miguel Pale Pilsen's **"Side by Side"** campaign. The brand also took home a Kidlat Awads Silver for Creative Storytelling for Promo/Activation for its **"Unusually Usual Father's Day Gifts"**. The company also received five Bronze Awards: four for San Miguel Pale Pilsen for Creative Use of Media, Best Art Direction, Best Copywriting, Creative Storytelling; and one for Red Horse Beer for Best Illustration for the Red Horse 2020 Planner. Red Horse Beer also received the award for Best Brand Channel from YouTube Works for the brand's **"Lakas Tama Channel"**.

*Sustained Momentum for*

# RECENTLY-LAUNCHED PRODUCTS

Following the soft introduction of SMBIL's wheat beer offering San Miguel Cerveza Blanca in Hong Kong and Thailand in 2020, the brand was successfully rolled out in these markets and made available in other countries in 2021.

San Miguel Cerveza Blanca was introduced in Vietnam in selected modern trade outlets and online selling platforms, backed by social media postings, consumer promotions and mailer programs for selected chain accounts.

In Taiwan, the brand was launched in targeted modern trade chains, supported by launch promotions, merchandising materials such as fridge stickers, floor displays and tent cards, as well as awareness campaigns via social media ads and outdoor sampling. Meanwhile, San Miguel Cerveza Blanca was also launched in South Korea and Singapore, with the brand now available in selected on- and off-premise outlets in both markets as well as e-commerce sites in Singapore. To prop up awareness and interest for the brand, display and other point-of-sale merchandising (POSM) programs were implemented, coupled with set menu and price-off promotions.

To sustain momentum in Hong Kong and Thailand, SMBIL continued to expand presence for the brand and launched multipacks in modern off-trade accounts. Penetration efforts were backed by out-of-home (OOH) and online advertisements, product education videos, in-store POSM, consumer promotions and sampling activities in selected outlets.

Meanwhile, SMBIL also continued to maximize gains from other recently-launched products. In Thailand, we sustained push for **San Mig Zero** in response to the rising health and wellness trend in the country. Outlet promotions were concentrated in the modern off-trade given heightened COVID-19 restrictions in the country. Gift set promos with other San Miguel brands together with merchandising programs were implemented to encourage trial and create excitement for the brand. Furthermore, advertising placements via LED billboards and web music player Joox were released to improve brand awareness.

To accelerate growth of **San Miguel Flavored Beer Lychee** in Vietnam, various sales and marketing programs were implemented. The brand is now available in 6-pack cans to further support growth in the modern trade channel. New listings in supermarkets and convenience stores, as well as Lazada, are expected to bring the brand to more consumers. Other programs conducted to prop up awareness and consumption for the brand include social media advertising, thematic campaign and promo tie-ups in online selling platforms during major Vietnam festivities, as well as food combo promos in convenience stores.


Meanwhile, after the relaunch of San Miguel Non-Alcoholic Beer in Saudi Arabia in 2020, the brand expanded its offering via the roll-out of the 6-pack bottle variant. The new 6-pack has been introduced to enter the multipack category, which accounts for a big share of NAB volumes, in order to sustain growth and grab share from major competitors in the market. Launch activities were focused on listing the new variant into retail chains supported by POSM to create consumer awareness and encourage trial.



# CORPORATE SOCIAL RESPONSIBILITY

## Ripples of Hope Abound

There are many stories of hope and life that circle around every community that San Miguel Brewery Inc. (SMB) has become part of. Aside from the delight of sharing a bottle of beer with SMB's partners and neighbors, what makes business beyond caring a meaningful endeavor are the little conversations and deeds shared that warm the heart.

Although 2021 was an extremely challenging year for businesses to forge ahead with widespread lockdowns and restrictions due to the pandemic, and the calamities that devastated certain regions in the country, SMB continued to provide aid to its people and its partner beneficiaries through various projects that helped uplift their quality of life.

In Mandaue City, SMB funded the Tipolo creek clean-up project to keep the surrounding waterways flowing, with the involvement of the host community of SMB's Mandaue Brewery. Every month, the community gathers to maintain the cleanliness of the creek. This is on top of the quarterly campaign of the Environmental Management Bureau. Through this project, approximately 4,000 kilos of garbage are collected and segregated. Part of the project is an education campaign that also helps train nearby households to properly segregate and dispose waste. A similar project is sponsored by the company in Quebiawan, San Fernando, Pampanga, where employees participated in the initiative to clean the waterways in the surrounding area of SMB's San Fernando Brewery. This was echoed in clean-ups in coastal areas in Jubay, Liloan, Cebu and the Silang River in Sta. Rosa, Laguna backed by SMB and participated in by our employee volunteers.

As SMB is committed to protecting the environment, efforts have been expended to help rehabilitate and preserve local ecosystems. In Bacolod City, Negros Occidental, SMB's Bacolod Brewery initiated a tree planting activity under the flagship program of SMB, Trees Brew Life. This program aims to green the countryside and the areas where SMB operates. The same program is implemented in SMB's Mandue, Davao, Tagoloan, Sta. Rosa and San Fernando Breweries with the help of volunteers from both within company and our partner communities. Through the program, a total of more than 110,000 trees have been planted nationwide, which consist of mangroves, as well as fruit- bearing and other forest species. Covering both mountains and sea sides, the purpose remains: to green the world and protect our forest covers.

In the Carmen Mangrove Project in Carmen, Cebu, SMB sustained the funding and planting of propagules to continue its mission of growing the green and blue sanctuaries where turtles, fish and shellfish scurry the shorelines. On top of the thriving sanctuaries, the project is helping restore coral reef while improving the income of the local fishermen with the additional payaws or fish aggregating devices, and production of propagules for continuous mangrove planting.

Noting that plastics greatly contribute to environmental woes, SMB likewise conducted an information drive against the one-time use and discarding of plastics in the Walang Plastikan project. This nationwide campaign was launched to encourage the recycling of plastics and the maximization of their use in order to help lessen greenhouse gases that are released during plastic production and disposal.

SMB also intensified its Balik Bote program to encourage the return of its glass bottles. This involved both employees and communities in the race to protect mother Earth.

In the area of education, SMB did its share in adopting the nationwide Balik Eskwela program of the Department of Education. This year, the company assisted schools in their preparation for face-to-face and modified face-to-face classes. SMB donated alcohol and face masks to promote the health and safety of students, teachers and support personnel. Computers were also donated to schools to help students and teachers meet requirements for online classes. This was likewise augmented with educational videos and licensed programs. In SMB's Tagoloan Brewery, SMB donated school supplies, alcohol, tissue papers and thermal scanners to help nearby Sta. Ana Elementary School prevent and monitor the spread of COVID-19 cases. This initiative was funded through an employee contribution drive.

With health as another priority, SMB continued its health care assistance programs through its existing community clinics in Luzon, Visayas and Mindanao that provide services to patients in the host communities of SMB's Breweries. The health care support project became more critical with the emergence and continuing threat of COVID-19. In Bacolod City, the SMB Community Clinic located in Barangay Granada continued to provide basic healthcare for the residents of the host community. Despite the varying levels of COVID-19-related restrictions, there was a noted increase of around 30% in the number of patients. Blood donation programs were likewise held in cooperation with the Philippine National Red Cross (PNRC) across the regions. Employees donated both regular blood and convalescent plasma to help the PNRC address the demand for blood assistance from patients afflicted by COVID-19 or other conditions.

The Sugbo Negosyo program was a project spearheaded by the local government of the province of Cebu and the Mandaue Chamber of Commerce and Industry. In this program, SMB was tasked to be part of the mentoring team to assist a start-up entrepreneur, Lora Ebalca. Lora's product, "Sugbo Sarsa," has gained her the first runner-up prize in the competition to spur small entrepreneurs to improve their businesses.

In Darong, Davao del Sur, SMB's Davao Brewery backed the Department of Tourism's initiative to ignite the economy through community tourism, while health kits were donated by SMB employees, in partnership with the local business council, to the municipality of Sta. Cruz.

True to its core value of caring beyond business, SMB's Malasakit for its employees and neighboring communities translated to the provision of bottled water, sanitary kits and food from the employee fund drive dubbed, SMB Keeps Hope Afloat program. In addition, employee volunteers from Bacolod and Davao Breweries, as well as the National Office, also donated resources to help victims of typhoon Odette.

Although the challenges brought on by the pandemic affected the scale of our social development projects, it did not deter the company's resolve to deliver on its corporate social responsibility. SMB continues to do good and give back to our partner communities with ripples of hope that show that SMB is indeed future forward.

# BOARD OF DIRECTORS

**Ramon S. Ang,** 68, 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 Executive Officer of San Miguel Corporation ("SMC") and San Miguel Food and Beverage, Inc. ("SMFB"); Director, President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. ("Top Frontier"), Petron Corporation ("Petron") and Northern Cement Corporation; Director and President of Ginebra San Miguel Inc. ("GSMI") and San Miguel Northern Cement, Inc.; Chairman and Chief Executive Officer and President and Chief Operating Officer of SMC Global Power Holdings Corp. ("SMC Power"); Chairman and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., and San Miguel Aerocity, Inc.; Chairman and Chief Executive Officer of SMC Asia Car Distributors Corp., and Chairman of San Miguel Brewery Hong Kong Limited ("SMBHK") (Hong Kong), Eagle Cement Corporation, Petron Malaysia Refining & Marketing Berhad (Malaysia) ("Petron Malaysia"), San Miguel Foods, Inc. ("SMFI"), San Miguel Yamamura Packaging Corporation ("SMYPC"), Anchor Insurance Brokerage Corporation ("AIBC"), Clariden Holdings, Inc., Philippine Diamond Hotel & Resort, Inc. and SEA Refinery Corporation. He is also the sole Director and shareholder of Master Year Limited and the Chairman of Privado Holdings, Corp. 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,** 73, Filipino, has served as Director since October 8, 2007 and President of the Company since April 30, 2009; and is a Member of the Company's Executive Committee. He is also a Director of San Miguel Brewing International Limited ("SMBIL") and SMBHK; Director and Chief Operating Officer – Beer of SMFB; and Chairman and President of Iconic Beverages, Inc. ("IBI"), Brewery Properties Inc. ("BPI") and Brewery Landholdings, Inc. ("BLI"). He also served as General Manager of the Company (2007-2009). Mr. Huang holds a Bachelor of Science Degree in Mechanical Engineering from Mapua Institute of Technology and completed academic requirements for a Master's Degree in Business Administration from De La Salle University. 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,** 70, 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 SMC; Director and Treasurer of SMFB; Director of Petron Malaysia, SMYPC, SMC Skyway Corporation (formerly Citra Metro Manila Tollways 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 Foods International Limited (formerly San Miguel Pure Foods International, Ltd.) and San Miguel Aerocity, Inc.; Director and President of AIBC; Chairman of SMC Stock Transfer Services Corporation, San Miguel Foundation, Inc. and San Miguel Integrated Logistics Services, Inc.; and Director of The Philippine Stock Exchange, Inc. He is also advisor to Bank of Commerce, GSMI and San Miguel Properties, Inc. Mr. Constantino is also a former Chief Finance Officer and Treasurer of the Company (2007-2009); a former Director of SMC, GSMI, SMFI and Top Frontier; a former Vice Chairman, Director and Treasurer of SMPC Power; and a former Director and Chief Finance Officer of San Miguel Northern Cement, Inc. Mr. Constantino has held directorships in various domestic and international subsidiaries of SMC 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,** 65, 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 ("Kirin"); 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; 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 Administration from Yokohama National University and a Master's Degree in Business from the University of Washington.

**Alonzo Q. Ancheta,** 89, Filipino, has served as an Independent Director of the Company since April 30, 2009 and is the Chairman of the Company's Governance and Nomination Committee and a Member of its Audit Committee. Atty. Ancheta is an Independent Director of PTFC Redevelopment Corporation and SMBHK; President of Zobella & Co. (A.Q. Ancheta and Partners): Trademark & Patent Attorneys; Co-Founding Partner/Senior Adviser of Quasha Law (formerly Quasha Ancheta Peña & Nolasco Law Offices); Chairman and President of Ogilvy & Mather Philippines, Inc.; President of Growe Investments Ltd.; and Member of the Board of Trustees of St. Luke's Medical Center. He is also a member of various organizations, including the Intellectual Property Association of the Philippines (Council Adviser, 1988-present), Philippine Bar Association, Legal Management Council of the Philippines, Asian Patent Attorneys Association (Honorary President, 2021-present), 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,** 57, Filipino, has served as Director of the Company since August 10, 2010. He is the Managing Director of SMBIL since January 1, 2008. He is also the Deputy Chairman of SMBHK; a Commissioner of PT Delta Djakarta Tbk (Indonesia) ("PTD"); and Chairman/Director of other subsidiaries of SMBIL, including San Miguel Beer (Thailand) Limited, San Miguel Holdings (Thailand) Limited ("SMHTL") 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,** 63, Japanese, has served as Director of the Company since March 27, 2015. He is the Director of the Board, Senior Executive Officer of Kirin. He was also the 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. 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,** 64, Filipino, has served as Director of the Company since May 31, 2016. He is consultant to SMC (since 2014), serving as the Assistant Team Manager for the 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,** 54, Japanese, has served as Director and as Executive Financial Advisor of the Company since October 1, 2017. He is a member of the Executive Committee and Audit Committee of the Company. He is also a Director of SMBIL, SMBHK and SMBTL. 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 (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,** 57, 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 SMBIL, SMBHK, IBI, BPI, BLI, SMHTL and SMBTL. 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.

**Reynato S. Puno,** 81, Filipino, has served as Independent Director of the Company since November 5, 2021 and is the Chairman of the Audit Committee and a Member of the Executive Committee, Executive Compensation Committee and Governance and Nomination Committee. Retired Chief Justice Puno is an Independent Director of SMC and SMBHK, and an Independent Commissioner of PTD. He is also the Chairman of the Environmental Heroes Foundation and GenWatt Solar Energy Solutions (Philippines); Vice Chairman of the Board of the GMA Kapuso Foundation; Director of The New Standard newspaper; a Member of the Permanent Court of Arbitration in Hague; a Member of the Board of the World Vision Development Foundation, Inc.; and a Member of the Board of Regents of the Manuel L. Quezon University. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He is also a former Independent Director of Union Bank of the Philippines (2012-2021) and Marcventure Mining and Development Corporation (2015-2017); a former Member of the Board of Regents of the University of the Philippines (2016-2018); a former Member of the Board of Trustees of the Gerry Roxas Foundation (2015-2017); and the former Chairman of the Philippine Bible Society (2012-2018) and Consultative Committee to revise the 1987 Constitution of the Philippines (January-July 2018). Retired Chief Justice Puno completed his Bachelor of Laws from the University of the Philippines in 1962, has a Master of Comparative Laws degree from the Southern Methodist University, Dallas, Texas (1967) and Master of Laws degree from the University of California, Berkeley, California, USA (1968), and finished all academic requirements of the degree of Doctor of Juridical Science, University of Illinois, Champaign, Urbana, USA (1969).

# CORPORATE GOVERNANCE

San Miguel Brewery Inc. recognizes the importance of good corporate governance in contributing to, and sustaining, the growth and value of the Company for its shareholders and other stakeholders. As such, it remains steadfast in its commitment to conduct its business affairs in an accountable, fair and transparent manner, and adhere to the highest ethical standards in all its business dealings.

## 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. In 2021, in view of the COVID-19 situation in the country, the Company conducted its 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 3 and 4, 2021.

"The Company keeps an open, reliable and relevant communication with the investing community and its stakeholders..."

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 2021 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 they are seats in the board, all the eleven (11) nominees were elected.

With the 2021 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 Relation**

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 2021.

**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.

"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."

**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 2021 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 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 2021. 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 P7.70 million were paid by the Company to the external auditor in 2021.

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 of their responsibilities and functions.

## Amended Manual on Corporate Governance

The Company amended its Manual on Corporate Governance (Manual) in 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). The SEC issued Memorandum Circular No. 13, series of 2021 requiring the submission of an Annual Corporate Governance Report for Public Companies and Registered Issuers (ACGR) on or before every June 30th to facilitate the disclosure of these companies' compliance with the CG Code for Public Companies and Registered Issuers. The first ACGR shall cover relevant information from January to December 2021. With the ACGR requirement, public companies and registered issuers such as the Company were no longer required to submit the annual certification by the Compliance Officer of the Company's compliance with the CG Code for Public Companies and Registered Issuers pursuant to the said Memorandum Circular.

## 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.

The Board has adopted the Charter of the Board of Directors which sets out the composition, structure, qualifications, duties and responsibilities, liabilities and processes of the Company's 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 (Ret.) Chief Justice Reynato S. Puno, sit as independent non-executive directors. (Ret.) Chief Justice Puno replaced Mr. Carmelo L. Santiago as independent non-executive director in view of the untimely demise of Mr. Santiago in August 2021. Atty. Ancheta and Mr. Santiago were re-elected as independent directors in the 2021 ASM. Pursuant to the requirements of the Manual, the Board, upon the endorsement of the Governance and Nomination Committee, provided meritorious justification to the shareholders during the 2021 ASM for their re-appointment as independent directors as they will be serving as independent directors of the Company for more than nine years upon re-election. The stockholders approved their re-election on the basis of such justification. 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. 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 in 2021.

**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 2021. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the Board of Directors and at the same time communicate with the Board, management, the Company's shareholders and the investing public. Below is the record of attendance of the directors at these meetings and at the ASM.

| | February 5 | March 5 | April 30 | May 25 2021 ASM | August 3 | November 5 | December 3 |
|---|---|---|---|---|---|---|---|
| Ramon S.Ang* | ✓ | ✓ | ✓ | ✓ | ✓ | X | ✓ |
| Robert N. Huang* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Ferdinand K. Constantino* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Keisuke Nishimura* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Alonzo Q. Achenta* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Carmelo L. Santiago* | ✓ | ✓ | ✓ | ✓ | X | - | - |
| Carlos Antonio M. Berba* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Toshiya Miyoshi* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Daniel L. Henares* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Tomoki Yamauchi* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Kenji Uchiyama* | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Reynato S. Puno[a] | - | - | - | - | - | ✓ | ✓ |

✓ Present
X Absent
- Not Applicable
* Elected at the June 2020 Annual Stockholder's Meeting (ASM) and re-elected at the May 25, 2021 ASM.
[a] (Ret.) Chief Justice Reynato S. Puno replaced Mr. Carmelo L. Santiago as independent director in view of the untimely passing of Mr. Santiago on August 6, 2021.

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

In 2021, the Company paid a total of P1,780,000.00 in per diem allowances to the Board of Directors as follows:

| | |
|---|---|
| Executive Directors | P660,000.00 |
| Non-Executive Directors (other than Independent Directors) | 760,000.00 |
| Independent Directors | 360,000.00 |
| | P1,780,000.00 |

## 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, (Ret.) Chief Justice Reynato S. Puno (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.

**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 (Ret.) Chief Justice Reynato S. Puno (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 two meetings in 2021 in which the Committee discussed and deliberated on, among others, the qualification of the nominees for election to the Board, including the endorsement to the Board of the meritorious justification for the re-election of Atty. Ancheta and Mr. Santiago as independent directors at the 2021 ASM as they will be serving as such for more than nine years upon re-election.

**Executive Compensation Committee**

Three directors comprise the Executive Compensation Committee: Mr. Ferdinand K. Constantino, Mr. Kenji Uchiyama and Ret. Chief Justice Reynato S. Puno, 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 two meetings in 2021.

**Audit Committee**

The Audit Committee is composed of five members, with two independent directors as members, (Ret.) Chief Justice Reynato S. Puno, 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 2021 wherein the Committee reviewed and approved, among others, the Company's 2020 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 2021 is set out in the table in the following page.

# Board Committee Attendance

| | Executive* | Audit | Executive Compensation | Governance and Nomination |
|---|---|---|---|---|
| Ramon S.Ang | C (0/0) | | | |
| Robert N. Huang | M (0/0) | | | |
| Ferdinand K. Constantino | | M (4/4) | C (2/2) | M (2/2) |
| Alonzo Q. Achenta | | M (4/4) | | C (2/2) |
| Carmelo L. Santiago | M (0/0) | C (2/3) | M (1/2) | M (1/2) |
| Tomoki Yamauchi | M (0/0) | M (4/4) | | |
| Kenji Uchiyama | M (0/0) | M (4/4) | M (2/2) | |
| Reynato S. Puno[a] | M (0/0) | C (0/0) | M (0/0) | M (0/0) |

* No meetings in 2021.

[a] (Ret.) Chief Justice Reynato S. Puno replaced Mr. Carmelo L. Santiago as Chairman of the Audit Committee and Member of the Executive Committee, Executive Compensation Committee and Governance and Nomination Committee in view of the passing of Mr. Santiago on August 6, 2021.

C - Chairman

M - Member

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

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

## Compliance Monitoring

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

**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

**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, 2021

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 2021:

- recommended to the Board of Directors the re-appointment of R.G. Manabat & Co. as external auditors of the Company for 2021;
- reviewed and approved the terms of engagement of the external auditors, including the audit and audit-related services provided by the external auditors to the Company, 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.

Reynato S. Puno
Chairman

Ferdinand K. Constantino
Member

Alonzo Q. Ancheta
Member

Kenji Uchiyama
Member

Tomoki Yamauchi
Member

**SAN MIGUEL BREWERY INC.**
A subsidiary of San Miguel Food and Beverage, Inc.

## 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, 2021, 2020 and 2019, 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 8th day of March 2022

# SAN MIGUEL BREWERY INC. AND SUBSIDIARIES

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

**CONSOLIDATED FINANCIAL STATEMENTS**
**December 31, 2021, 2020 and 2019**

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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021, 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)

*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 (P33,606 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 23.21% 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 possible 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 (P116,286 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 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, 2021, 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, 2021 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 audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about these matters or when, in extremely rare circumstances, we determine these matters 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. 108855-SEC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
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 8854089
Issued January 3, 2022 at Makati City

March 18, 2022
Makati City, Metro Manila

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Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS**

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*Opinion*

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- 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.

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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.

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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. 108855-SEC, Group A, valid for five (5) years
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March 18, 2022
Makati City, Metro Manila

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**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, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 18, 2022.

Our audits were made for the purpose of forming an opinion on the 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 consolidated financial statements. Such supplementary information have been subjected to the auditing procedures applied in our audit of the consolidated financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 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. 108855-SEC, Group A, valid for five (5) years
covering the audit of 2021 to 2025 financial statements
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 8854089
Issued January 3, 2022 at Makati City

March 18, 2022
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* | **2021** | 2020 |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *4, 7, 32, 33* | **P26,863** | P24,185 |
| Trade and other receivables - net | *4, 8, 28, 32, 33* | **7,977** | 5,662 |
| Inventories - net | *9* | **3,171** | 2,938 |
| Prepaid expenses and other current assets | *10, 28, 32, 33* | **1,474** | 2,161 |
| **Total Current Assets** | | **39,485** | 34,946 |
| **Noncurrent Assets** | | | |
| Financial assets at fair value through other comprehensive income | *11, 32, 33* | **5,137** | 4,837 |
| Property, plant and equipment - net | *4, 12* | **31,444** | 30,189 |
| Right-of-use assets - net | *4, 13* | **1,913** | 1,898 |
| Investment property - net | *4, 14* | **2,206** | 1,768 |
| Intangible assets - net | *4, 15* | **35,631** | 35,638 |
| Deferred tax assets | *6, 19* | **618** | 918 |
| Other noncurrent assets - net | *4, 16, 28, 30, 32, 33* | **28,380** | 28,256 |
| **Total Noncurrent Assets** | | **105,329** | 103,504 |
| | | **P144,814** | P138,450 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued expenses | *17, 28, 32, 33* | **P17,098** | P16,023 |
| Lease liabilities - current portion | *28, 29, 32, 33* | **186** | 190 |
| Income and other taxes payable | *6, 19* | **3,718** | 4,034 |
| Current maturities of long-term debt - net of debt issue costs | *6, 18, 32, 33* | **7,015** | 12,456 |
| **Total Current Liabilities** | | **28,017** | 32,703 |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of debt issue costs | *6, 18, 32, 33* | **24,373** | 19,455 |
| Lease liabilities - net of current portion | *28, 29, 32, 33* | **1,101** | 1,073 |
| Other noncurrent liabilities | *28, 30* | **202** | 214 |
| **Total Noncurrent Liabilities** | | **25,676** | 20,742 |
| **Total Liabilities** | | **53,693** | 53,445 |

*Forward*

| | Note | December 31 2021 | 2020 |
|---|---|---|---|
| **Equity** | *20* | | |
| **Equity Attributable to Equity Holders of the Company** | | | |
| Capital stock | | **P15,410** | P15,410 |
| Additional paid-in capital | | **515** | 515 |
| Equity reserves | | **(224)** | (1,292) |
| Retained earnings: | | | |
| Appropriated | | **36,311** | 36,970 |
| Unappropriated | | **36,417** | 31,091 |
| Treasury stock | | **(1,029)** | (1,029) |
| | | **87,400** | 81,665 |
| **Non-controlling Interests** | *2, 5* | **3,721** | 3,340 |
| **Total Equity** | | **91,121** | 85,005 |
| | | **P144,814** | P138,450 |

*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, 2021, 2020 AND 2019**
(In Millions, Except Per Share Data)

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **SALES** | *6, 28* | **P116,286** | P107,928 | P142,272 |
| **COST OF SALES** | *21* | **71,392** | 65,875 | 79,591 |
| **GROSS PROFIT** | | **44,894** | 42,053 | 62,681 |
| **SELLING AND ADMINISTRATIVE EXPENSES** | *22* | **(17,979)** | (17,586) | (23,961) |
| **INTEREST EXPENSE AND OTHER FINANCING CHARGES** | *6 ,18, 25, 29* | **(1,778)** | (2,098) | (1,706) |
| **IMPAIRMENT LOSS ON NONCURRENT ASSETS** | *6, 27* | **-** | - | (903) |
| **INTEREST INCOME** | *6, 7* | **251** | 539 | 1,020 |
| **OTHER INCOME** - Net | *6, 11, 26* | **765** | 1,635 | 1,635 |
| **INCOME BEFORE INCOME TAX** | | **26,153** | 24,543 | 38,766 |
| **INCOME TAX EXPENSE** | *6, 19* | **5,704** | 7,088 | 11,481 |
| **NET INCOME** | *6* | **P20,449** | P17,455 | P27,285 |
| **Attributable to:** | | | | |
| Equity holders of the Company | *6* | **20,029** | 17,161 | P26,720 |
| Non-controlling interests | *6* | **420** | 294 | 565 |
| | | **P20,449** | P17,455 | P27,285 |
| **Basic and Diluted Earnings Per Share** | *31* | **P1.30** | P1.12 | P1.74 |

*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, 2021, 2020, AND 2019
(In Millions)

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **NET INCOME** | | **P20,449** | P17,455 | P27,285 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Item that will not be reclassified to profit or loss** | | | | |
| Equity reserve for retirement plan and others | *30* | **812** | 404 | (129) |
| Income tax | *19* | **(299)** | (111) | 49 |
| | | **513** | 293 | (80) |
| **Item that will be reclassified to profit or loss** | | | | |
| Gain (loss) on exchange differences on translation of foreign operations - net of tax | | **824** | (1,174) | (340) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** - Net of tax | | **1,337** | (881) | (420) |
| **TOTAL COMPREHENSIVE INCOME** | | **P21,786** | P16,574 | P26,865 |
| **Attributable to:** | | | | |
| Equity holders of the Company | | **P21,097** | P16,462 | P26,404 |
| Non-controlling interests | | **689** | 112 | 461 |
| | | **P21,786** | P16,574 | P26,865 |

*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, 2021, 2020 AND 2019
(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, 2020** | | **P15,410** | **P515** | **(P1,460)** | **(P3)** | **P171** | **P36,970** | **P31,091** | **(P1,029)** | **P81,665** | **P3,340** | **P85,005** |
| Net income | | **-** | **-** | **-** | **-** | **-** | **-** | **20,029** | **-** | **20,029** | **420** | **20,449** |
| Other comprehensive income: | | | | | | | | | | | | |
| Gain on exchange differences on translation of foreign operations - net of tax | | **-** | **-** | **-** | **1** | **566** | **-** | **-** | **-** | **567** | **257** | **824** |
| Equity reserve for retirement plan - net of tax | | **-** | **-** | **501** | **-** | **-** | **-** | **-** | **-** | **501** | **12** | **513** |
| Total comprehensive income | | **-** | **-** | **501** | **1** | **566** | **-** | **20,029** | **-** | **21,097** | **689** | **21,786** |
| Cash dividends | | **-** | **-** | **-** | **-** | **-** | **-** | **(15,362)** | **-** | **(15,362)** | **(308)** | **(15,670)** |
| Appropriation | | **-** | **-** | **-** | **-** | **-** | **16,211** | **(16,211)** | **-** | **-** | **-** | **-** |
| Reversal of appropriation | | **-** | **-** | **-** | **-** | **-** | **(16,870)** | **16,870** | **-** | **-** | **-** | **-** |
| **As of December 31, 2021** | | **P15,410** | **P515** | **(P959)** | **(P2)** | **P737** | **P36,311** | **P36,417** | **(P1,029)** | **P87,400** | **P3,721** | **P91,121** |

*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, 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 - 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*

| | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Equity Attributable to Equity Holders of the Company | | | | | | | | | | |
| | | | | Equity Reserves | | | Retained Earnings | | | | | |
| As of December 31, 2018 | | 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 - 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 |

*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, 2021, 2020, AND 2019**
(In Millions)

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | | **P26,153** | P24,543 | P38,766 |
| Adjustments for: | | | | |
| Depreciation, amortization and others | *23* | **5,083** | 4,543 | 4,720 |
| Interest expense and other financing charges | *18, 25* | **1,778** | 2,098 | 1,706 |
| Provision for impairment losses on receivables and inventories - net | *8, 9, 16* | **800** | 860 | 630 |
| Retirement costs | *30* | **540** | 573 | 528 |
| Loss (gain) on sale of property and equipment, investments and investment property - net | *26* | **(185)** | 20 | (7) |
| Dividend income | | **(123)** | - | - |
| Impairment loss on noncurrent assets | *27* | **-** | - | 903 |
| Interest income | *7* | **(251)** | (539) | (1,020) |
| Operating income before working capital changes | | **33,795** | 32,098 | 46,226 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | **(2,268)** | 663 | (1,699) |
| Inventories | | **(279)** | (58) | 659 |
| Prepaid expenses and other current assets | | **977** | 2,266 | (1,966) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | | **143** | (1,506) | 2,299 |
| Other taxes payable | | **64** | 157 | 112 |
| Other noncurrent liabilities | | **(4)** | - | 10 |
| Cash generated from operations | | **32,428** | 33,620 | 45,641 |
| Income taxes paid | | **(5,764)** | (7,689) | (10,665) |
| Interest paid | *18* | **(1,808)** | (1,794) | (1,747) |
| Contributions paid to the retirement plan | *30* | **(413)** | (541) | (648) |
| Net cash flows provided by operating activities | | **24,443** | 23,596 | 32,581 |

*Forward*

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Interest received | | **P251** | P555 | P1,066 |
| Dividends received | | **123** | - | - |
| Proceeds from sale of: | | | | |
| Property and equipment | | **208** | 7 | 18 |
| Increase in intangible assets and other noncurrent assets | | **(3,581)** | (3,540) | (9,173) |
| Additions to: | | | | |
| Property, plant and equipment | *6, 12* | **(2,684)** | (5,243) | (6,769) |
| Financial asset at fair value through other comprehensive income | *11* | **-** | (4,850) | - |
| Investment property | *14* | **-** | (68) | (27) |
| Net cash flows used in investing activities | | **(5,683)** | (13,139) | (14,885) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from long-term debt - net of debt issue costs | | **11,910** | - | 9,925 |
| Additions to non-controlling interest | | **-** | - | 90 |
| Payments of: | | | | |
| Cash dividends | *20* | **(15,358)** | (15,358) | (15,359) |
| Lease liability | *29* | **(308)** | (315) | (526) |
| Loan payable | *18* | **-** | - | (500) |
| Dividends to non-controlling shareholders | | **(306)** | (439) | (582) |
| Long-term debt | *18* | **(12,478)** | - | (12,810) |
| Net cash flows used in financing activities | | **(16,540)** | (16,112) | (19,762) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **458** | (611) | (371) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **2,678** | (6,266) | (2,437) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **24,185** | 30,451 | 32,888 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *7* | **P26,863** | P24,185 | P30,451 |

*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 Group is primarily engaged in manufacturing, selling and distribution of fermented and malt-based beverages, and non-alcoholic beverages. Under its Amended Articles of Incorporation, the Company is authorized to engage in the manufacturing, selling and distribution of fermented and malt-based beverages, alcoholic beverages, non-alcoholic beverages, and such other beverages of all kinds and classes. On March 16, 2021, the SEC approved the amendment of the primary purpose in the Amended Articles of Incorporation of the Company to include alcoholic beverages and such other beverages of all kinds and classes as among the products the Company is authorized to manufacture, sell or otherwise deal in. 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 have a perpetual corporate term pursuant to the Revised Corporation Code of the Philippines which took effect on February 23, 2019 because 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 by the Board of Directors (BOD) of the Company on March 8, 2022.

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 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 |

*Forward*

| 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 |
|---|---|---|---|---|---|
| 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 (SMBVCL) | Republic of Vietnam | - | 100 | 100 | Manufacture and sale of beer |
| San Miguel Malaysia (L) Pte. Ltd. | Malaysia | - | 100 | 100 | Investment holding |
| PT. Delta Djakarta Tbk and Subsidiary (PTD) | Republic of Indonesia | - | 58.3 | 58.3 | Manufacture and sale of beer |
| Brewery Properties Inc. (BPI) | Philippines | 40 | - | 40 | Property holding |
| Brewery Landholdings, Inc. (BLI) | Philippines | - | 100 | 40 | Property holding |

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

*** Ceased operations in November 2020 and is currently undergoing liquidation*

**** Ceased operations in March 2020 and is currently undergoing liquidation*

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. GSMB started liquidation 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 the said date.

In March 2020, SMBIL and SMCIC, shareholders of SMBB passed a resolution approving the dissolution of SMBB. SMBB stopped operations and production activities from the date of the resolution and started liquidation.

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

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

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and 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 2021 and 2020.

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

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

The Group has adopted the following PFRS effective January 1, 2021 and accordingly, changed its accounting policies in the following areas:

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, *Leases*) beyond June 30, 2021. The optional practical expedient introduced in the 2020 amendments that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 and which solely applies to reduction in lease payments originally due on or before June 30, 2021 has been extended to June 30, 2022. The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond June 30, 2021.

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

Standards Issued but Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2021 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 consolidated financial statements.

The Group will adopt the following new and amended standards on the respective effective dates:

- 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 an entity's ordinary activities, the amendments require an entity 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 an entity first applies the amendments.

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

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

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

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

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

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

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). 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, *Presentation of Financial Statements*). 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 an entity 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 an entity'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.

- Definition of Accounting Estimates (Amendments to PAS 8*, Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

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

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

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

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, *Financial Instruments,* PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures,* 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, an entity 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 an entity 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 entities to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. An entity 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 an entity'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 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.

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, 32 and 33).

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 equity are never reclassified to profit or loss.

The Group has no investment in debt securities as of December 31, 2021 and 2020.

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 profit or loss 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, 32 and 33).

*Financial Liabilities*

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

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

The Group carries financial liabilities at FVPL using their fair values and reports fair value changes in 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, 32 and 33).

*Other Financial Liabilities.* This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the consolidated statements of income. Gains and losses are recognized in 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 transactions or borrowings such as accounts payable and accrued expenses, lease liabilities, long-term debt and other non-current liabilities are included under this category (Notes 17, 18, 28, 29, 32 and 33).

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, 2021 and 2020 (Notes 32 and 33).

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 reversal, 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 profit or loss 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 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, 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 | 3 - 50 |
| Leasehold improvements | 3 - 50 or term of the lease, whichever is shorter |

The remaining useful lives, residual values, and depreciation method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of depreciation 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>

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

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

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

*Group as Lessee*

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

The right-of-use asset is subsequently amortized 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 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 practical expedient is applied 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 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.

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 stated 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 |
|---|---|
| Buildings and improvements | 10 - 50 |
| Right-of-use assets | remaining lease term |

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 carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in 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 two 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.

<u>Deferred Containers</u>
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.

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.

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

*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>Borrowing Costs</u>
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 reviewed for impairment annually 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 initially recorded in the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are translated to the functional currency at exchange rate at the reporting date. 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.

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 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.

Taxes

*Current Tax.* Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

*Deferred Tax.* Deferred tax is recognized 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.

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 33.

*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.* 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 have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR, therefore, reflects what the Group would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific judgement estimates.

The Group's lease liabilities amounted to P1,287 and P1,263 as at December 31, 2021 and 2020, respectively (Notes 29).

*Determining whether a Contract Contains a Lease*. 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*. 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 P520, P489 and P684 in 2021, 2020 and 2019, respectively (Notes 21, 22 and 29).

*Determining the Lease Term of Contracts with Renewal Options - Group as Lessor*. 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 P179, P181 and P173 in 2021, 2020 and 2019, 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 did not recognize any contingent assets or provision for these tax cases in 2021, 2020 and 2019 (Notes 17 and 34).

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 P10 and P14 in 2021 and 2020, respectively. The allowance for impairment losses on trade and other receivables amounted to P344 and P333 as of December 31, 2021 and 2020, respectively (Note 8).

The carrying amount of trade and other receivables amounted to P7,977 and P5,662 as of December 31, 2021 and 2020, 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 2021 and 2020.

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

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | *7, 32, 33* | **P26,764** | P23,532 |
| Long-term receivables (included under "Other noncurrent assets-net" account) | *16, 32, 33* | **12** | 12 |

There was no allowance for impairment losses on noncurrent receivables recognized in the consolidated statements of financial position as of December 31, 2021 and 2020.

*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, some 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 amounts of trademarks, brand names and some licenses with indefinite useful lives amounted to P35,616 and P35,618 as of December 31, 2021 and 2020, 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 P10,384 and P11,481 as of December 31, 2021 and 2020, 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 P14,376 and P13,391 as of December 31, 2021 and 2020, respectively (Notes 12, 13, 15 and 16).

The combined carrying amounts of property, plant and equipment, right-of-use assets, investment property, deferred containers and intangible assets with finite useful lives amounted to P61,370 and P59,175 as of December 31, 2021 and 2020, 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, 2021 | | | | | December 31, 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **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** | **P1,278** | **P1,506** | **P1,032** | **P18** | P873 | P1,151 | P1,454 | (P1,115) | P19 |
| Current assets | **P42** | **P1,904** | **P3,722** | **P2,588** | **P5** | P31 | P1,846 | P3,346 | P572 | P5 |
| Noncurrent assets | **3,742** | **2,940** | **1,661** | **1,710** | **190** | 3,595 | 2,823 | 1,491 | 1,915 | 199 |
| Current liabilities | **(51)** | **(826)** | **(1,630)** | **(2,746)** | **-** | (56) | (1,291) | (1,150) | (4,674) | (167) |
| Noncurrent liabilities | **-** | **(284)** | **(190)** | **(3,574)** | **(160)** | - | (15) | (198) | - | - |
| **Net assets (liabilities)** | **P3,733** | **P3,734** | **P3,563** | **(P2,022)** | **P35** | P3,570 | P3,363 | P3,489 | (P2,187) | P37 |
| **Dividends paid to non-controlling interests** | **P 12** | **P -** | **P296** | **P -** | **P -** | P11 | P - | P424 | P - | P - |
| **Net income attributable to non-controlling interests** | **P12** | **P48** | **P264** | **P33** | **P -** | P11 | P30 | P191 | P23 | P - |
| **Other comprehensive income (loss) attributable to non-controlling interests** | **P -** | **P6** | **(P15)** | **P115** | **(P2)** | P11 | P34 | (P58) | (P3) | P - |
| Sales | **P240** | **P3,788** | **P4,276** | **P1,455** | **P -** | P245 | P3,569 | P3,426 | P1,525 | P - |
| Net income | **P176** | **P140** | **P634** | **P64** | **P -** | P173 | P88 | P457 | P45 | P - |
| Other comprehensive income (loss) | **-** | **17** | **(37)** | **225** | **4** | - | 100 | (139) | (5) | - |
| **Total comprehensive income (loss)** | **P176** | **P157** | **P597** | **P289** | **P4** | P173 | P188 | P318 | P40 | P - |
| Cash flows provided by (used in) operating activities | **P167** | **P30** | **(P89)** | **P269** | **P -** | P191 | P133 | P300 | P78 | P - |
| Cash flows provided by (used in) investing activities | **(142)** | **(52)** | **(50)** | **(23)** | **-** | (331) | (49) | 29 | (22) | - |
| Cash flows provided by (used in) financing activities | **(12)** | **(31)** | **309** | **(247)** | **-** | (11) | (27) | (436) | (73) | - |
| Effects of exchange rate changes on cash and cash equivalents | **-** | **(2)** | **(13)** | **(21)** | **-** | - | 1 | (18) | 1 | - |
| **Net increase (decrease) in cash and cash equivalents** | **P13** | **(P55)** | **P157** | **(P22)** | **P -** | (P151) | P58 | (P125) | (P16) | 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, 2021 | | | |
|---|---|---|---|---|
| | **Domestic** | **International** | **Eliminations** | **Total** |
| **Sales** | | | | |
| External sales | **P105,097** | **P11,189** | **P -** | **P116,286** |
| Inter-segment sales | **17** | **-** | **(17)** | **-** |
| **Total Sales** | **P105,114** | **P11,189** | **(P17)** | **P116,286** |
| **Result** | | | | |
| Segment result | **P25,224** | **P1,713** | **(P22)** | **P26,915** |
| Interest expense and other financing charges | **(1,763)** | **(15)** | **-** | **(1,778)** |
| Interest income | | | | **251** |
| Other income - net | | | | **765** |
| Income tax expense | | | | **(5,704)** |
| **Net Income** | | | | **P20,449** |
| **Attributable to:** | | | | |
| Equity holders of the Company | | | | **P20,029** |
| Non-controlling interests | | | | **420** |
| **Net Income** | | | | **P20,449** |

| | As of and For the Year Ended December 31, 2021 | | | |
|---|---|---|---|---|
| | **Domestic** | **International** | **Eliminations** | **Consolidated** |
| **Other Information** | | | | |
| Segment assets | **P99,594** | **P19,816** | **(P13,969)** | **P105,441** |
| Trademarks and brand names | **32,000** | **1,606** | | **33,606** |
| Other assets | | | | **5,149** |
| Deferred tax assets | | | | **618** |
| **Consolidated Total Assets** | | | | **P144,814** |
| Segment liabilities | **P15,153** | **P3,271** | **(P29)** | **P18,395** |
| Long-term debt including current maturities - net of debt issue costs | **31,388** | | | **31,388** |
| Income and other taxes payable | | | | **3,718** |
| Accrued interests and dividends payable | | | | **192** |
| **Consolidated Total Liabilities** | | | | **P53,693** |
| Capital expenditures | **P2,504** | **P180** | **P -** | **P2,684** |
| Depreciation and amortization of property, plant and equipment | **1,559** | **221** | | **1,780** |
| Noncash items other than depreciation and amortization of property, plant and equipment | **3,227** | **74** | **2** | **3,303** |

| | 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 |

## 7. Cash and Cash Equivalents

This account consists of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Cash in banks and on hand | | **P7,119** | P5,647 |
| Short-term investments | | **19,744** | 18,538 |
| | *4, 32, 33* | **P26,863** | P24,185 |

Cash in banks earn 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 0.01% to 3.50%. Interest income from cash in banks and short-term investments amounted to P251, P539 and P1,020 for the years December 31, 2021, 2020 and 2019, respectively.

## 8. Trade and Other Receivables

This account consists of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Trade: | | | |
| Amounts owed by third parties | | **P7,355** | P5,178 |
| Amounts owed by related parties | *28* | **5** | 7 |
| Non-trade: | | | |
| Amounts owed by third parties | | **799** | 628 |
| Amounts owed by related parties | *28* | **162** | 182 |
| | | **8,321** | 5,995 |
| Less allowance for impairment losses | *4* | **344** | 333 |
| | *32, 33* | **P7,977** | P5,662 |

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*** | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P333** | P189 |
| Write-off during the year | *4* | **(10)** | (14) |
| Provision during the year | *22* | **105** | 164 |
| Reversal during the year | *22* | **(89)** | - |
| Currency translation adjustments | | **5** | (6) |
| Balance at end of year | | **P344** | P333 |

## 9. Inventories

This account consists of:

| | **2021** | 2020 |
|---|---|---|
| At net realizable value: | | |
| Finished goods and goods in process | **P1,766** | P1,561 |
| Materials and supplies | **1,405** | 1,377 |
| | **P3,171** | P2,938 |

The cost of inventories are as follows:

| | **2021** | 2020 |
|---|---|---|
| Finished goods and goods in process | **P1,798** | P1,581 |
| Materials and supplies | **1,440** | 1,394 |
| | **P3,238** | P2,975 |

The write-down of inventories recognized as expense as part of “Selling and Administrative Expenses” in the consolidated statements of income amounted to P47, P14 and P12 for the years ended December 31, 2021, 2020 and 2019, respectively (Note 22). Write-off of inventories amounted to P16, P14 and P5 in 2021, 2020 and 2019, respectively. No reversal of write-down had been recognized in 2021, 2020 and 2019.

Inventory charged to cost of sales amounted to P10,634, P10,159 and P14,895 for the years ended December 31, 2021, 2020 and 2019, respectively (Note 21).

## 10. Prepaid Expenses and Other Current Assets

This account consists of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Prepaid taxes and licenses | *34* | **P969** | P1,515 |
| Prepaid supplies/materials | | **316** | 234 |
| Prepaid insurance | | **126** | 337 |
| Prepaid rent | *28* | **15** | 16 |
| Derivative assets | *32, 33* | **9** | 25 |
| Others | | **39** | 34 |
| | | **P1,474** | P2,161 |

Others include promotional, maintenance, and various immaterial accounts.

## 11. Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Redeemable perpetual securities | *28* | **P5,100** | P4,803 |
| Club shares | | **37** | 34 |
| | | **P5,137** | P4,837 |

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, 2021 and 2020, SMBIL received dividend income amounting to P123 and P30, respectively and are 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 33.

## 12. Property, Plant and Equipment

The movements in property, plant and equipment 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, 2020 | P9,106 | P48,158 | P14,260 | P1,082 | P142 | P658 | P346 | P2,625 | P76,377 |
| 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 |
| Additions (Note 6) | - | 1,308 | 631 | 75 | 123 | 38 | 3 | 506 | 2,684 |
| Disposals/reclassifications | (428) | (407) | (678) | (22) | 399 | (10) | (87) | 782 | (451) |
| Currency translation adjustments | (50) | 1,254 | 504 | 7 | 3 | 16 | 7 | 5 | 1,746 |
| **December 31, 2021** | **8,617** | **54,199** | **16,115** | **1,171** | **833** | **744** | **266** | **2,604** | **84,549** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| January 1, 2020 | - | 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 |
| Additions (Notes 21, 22, 23) | - | 1,321 | 295 | 76 | 12 | 51 | 25 | - | 1,780 |
| Disposals/reclassifications | - | (398) | (262) | (15) | 20 | (15) | (66) | - | (736) |
| Currency translation adjustments | - | 503 | 173 | 5 | 3 | 12 | 5 | - | 701 |
| **December 31, 2021** | **-** | **31,333** | **6,417** | **843** | **164** | **581** | **213** | **-** | **39,551** |

*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, 2020 | P - | P9,412 | P3,099 | P10 | P1 | P51 | P28 | P - | P12,601 |
| 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 |
| Disposals/reclassifications | - | (11) | - | (2) | (1) | 4 | (14) | - | (24) |
| Currency translation adjustments | - | 733 | 264 | 1 | - | 4 | 1 | - | 1,003 |
| **December 31, 2021** | **-** | **10,090** | **3,390** | **7** | **-** | **57** | **10** | **-** | **13,554** |
| **Carrying Amount** | | | | | | | | | |
| December 31, 2020 | P9,095 | P12,769 | P6,321 | P326 | P178 | P118 | P71 | P1,311 | P30,189 |
| **December 31, 2021** | **P8,617** | **P12,776** | **P6,308** | **P321** | **P669** | **P106** | **P43** | **P2,604** | **P31,444** |

Depreciation charged to operations amounted to P1,780, P1,578, and P1,459 in 2021, 2020 and 2019, respectively (Notes 21, 22 and 23). No interest was capitalized in 2021 and 2020.

Following the impairment testing of the Group, impairment losses recognized on property, plant and equipment related to its foreign operations amounted to nil, nil and P841 in 2021, 2020 and 2019, respectively (Note 27).

Certain fully depreciated property, plant and equipment with aggregate costs of P18,437 and P16,875 as at December 31, 2021 and 2020, 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, 2020 | P1,969 | P581 | P4 | P222 | P2,776 |
| 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 |
| Additions | - | 463 | 26 | 23 | 512 |
| Disposals/ reclassifications | - | (440) | - | - | (440) |
| Currency translation adjustments | 88 | 3 | 2 | - | 93 |
| **December 31, 2021** | **2,252** | **630** | **33** | **252** | **3,167** |
| **Accumulated Amortization** | | | | | |
| January 1, 2020 | 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 |
| Additions (Notes 21, 22, 23) | 82 | 133 | 3 | 53 | 271 |
| Disposals/ reclassifications | - | (164) | (3) | (1) | (168) |
| Currency translation adjustments | 40 | 2 | - | 1 | 43 |
| **December 31, 2021** | **733** | **209** | **4** | **227** | **1,173** |
| **Accumulated Impairment Losses** | | | | | |
| January 1, 2020 | 80 | - | - | - | 80 |
| Currency translation adjustments | (3) | - | - | - | (3) |
| December 31, 2020 | 77 | - | - | - | 77 |
| Currency translation adjustments | 4 | - | - | - | 4 |
| **December 31, 2021** | **81** | **-** | **-** | **-** | **81** |
| **Carrying Amount** | | | | | |
| December 31, 2020 | P1,476 | P366 | P1 | P55 | P1,898 |
| **December 31, 2021** | **P1,438** | **P421** | **P29** | **P25** | **P1,913** |

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 (2) to fifty (50) 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:

| | Right-of-Use Assets | Land | Buildings and Improvements | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2020 | P 661 | P976 | P727 | P2,364 |
| Additions | - | 68 | - | 68 |
| Currency translation adjustments | (31) | - | (34) | (65) |
| December 31, 2020 | 630 | 1,044 | 693 | 2,367 |
| Additions | - | - | - | - |
| Reclassifications | - | 428 | - | 428 |
| Currency translation adjustments | 35 | - | 39 | 74 |
| **December 31, 2021** | **665** | **1,472** | **732** | **2,869** |
| **Accumulated Depreciation and Amortization** | | | | |
| January 1, 2020 | 233 | - | 364 | 597 |
| Additions | 15 | - | 15 | 30 |
| Currency translation adjustments | (11) | - | (17) | (28) |
| December 31, 2020 | 237 | - | 362 | 599 |
| Additions | 15 | - | 15 | 30 |
| Currency translation adjustments | 14 | - | 20 | 34 |
| **December 31, 2021** | **266** | **-** | **397** | **663** |
| **Carrying Amount** | | | | |
| December 31, 2020 | P393 | P1,044 | P331 | P1,768 |
| **December 31, 2021** | **P399** | **P1,472** | **P335** | **P2,206** |

No impairment loss was recognized in 2021, 2020 and 2019.

The fair value of investment property amounting to P7,057 and P5,904 as of December 31, 2021 and 2020, 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 and based on the available external market values for the other parcels of land not covered by the appraisal. 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 P172, P174, and P169 in 2021, 2020 and 2019, respectively (Note 26). Direct cost attributable to investment property amounted to P11, P10, and P8, in 2021, 2020 and 2019, respectively.

<u>Valuation Technique and Significant Unobservable Inputs</u>
*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 1.9% to 3.9% and 2.0% to 4.0% in 2021 and 2020, respectively.

## 15. Intangible Assets

The movements in this account are as follows:

| | Trademarks and Brand Names | Licenses | Computer Software and Licenses | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2020 | P33,826 | P2,210 | P268 | P36,304 |
| Additions | - | - | 8 | 8 |
| Disposals/reclassifications | - | - | (3) | (3) |
| Currency translation adjustments | (92) | (105) | (6) | (203) |
| December 31, 2020 | 33,734 | 2,105 | 267 | 36,106 |
| Additions | - | - | 6 | 6 |
| Disposals/reclassifications | - | - | (5) | (5) |
| Currency translation adjustments | 106 | (95) | 6 | 17 |
| **December 31, 2021** | **33,840** | **2,010** | **274** | **36,124** |
| **Accumulated Amortization** | | | | |
| January 1, 2020 | - | - | 238 | 238 |
| Additions | - | - | 13 | 13 |
| Disposals/reclassifications | - | - | (3) | (3) |
| Currency translation adjustments | - | - | (6) | (6) |
| December 31, 2020 | - | - | 242 | 242 |
| Additions | - | - | 11 | 11 |
| Disposals/reclassifications | - | - | (4) | (4) |
| Currency translation adjustments | - | - | 5 | 5 |
| **December 31, 2021** | **-** | **-** | **254** | **254** |
| **Accumulated Impairment Losses** | | | | |
| January 1, 2020 | 231 | - | 5 | 236 |
| Currency translation adjustments | (10) | - | - | (10) |
| December 31, 2020 | 221 | - | 5 | 226 |
| Disposals/reclassifications | - | - | (1) | (1) |
| Currency translation adjustments | 13 | - | 1 | 14 |
| **December 31, 2021** | **234** | **-** | **5** | **239** |
| **Carrying Amount** | | | | |
| December 31, 2020 | P33,513 | P2,105 | P20 | P35,638 |
| **December 31, 2021** | **P33,606** | **P2,010** | **P15** | **P35,631** |

Trademarks and brand names with indefinite useful lives amounted to P33,606 and P33,513 as of December 31, 2021 and 2020, respectively. Licenses with indefinite useful lives amounted to P2,010 and P2,105 as of December 31, 2021 and 2020, 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.

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 34).

*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 8.8% and 9.0% in 2021 and 2020, respectively.

   No impairment loss recognized in the value of trademarks and brand names in 2021 and 2020.

   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 5.9% to 12% in 2021 and 6.0% to 15.1% in 2020.

   Management assessed that there was no impairment loss in the value of trademarks and brand names in 2021 and 2020.

*Licenses*

a. International Operations

The recoverable amount of the licenses 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 3% growth rate used is consistent with the long-term average growth rates for the industry. The discount rates applied to after tax cash flow projections range from 7.9% in 2021 and 9.0% in 2020.

Management assessed that there was no impairment loss in the value of licenses in 2021 and 2020.

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*** | **2021** | 2020 |
|---|---|---|---|
| Deferred containers - net: | | | |
| Bottles | | **P16,492** | P15,744 |
| Shells | | **9,300** | 9,556 |
| | | **25,792** | 25,300 |
| Others | *4, 28, 30, 32, 33* | **2,588** | 2,956 |
| | | **P28,380** | P28,256 |

Others include cost of pallets, kegs and $CO_2$ cylinders net of amortization, defined benefit retirement asset, long-term receivable, prepaid rentals, advances to suppliers and deposits on land for future development.

The movements in the deferred containers are as follows:

| | Note | 2021 | 2020 |
|---|---|---|---|
| **Gross Carrying Amount** | | | |
| Balance at beginning of year | | **P41,136** | P39,941 |
| Additions | | **4,545** | 3,455 |
| Disposals/reclassifications | | **(1,923)** | (2,147) |
| Currency translation adjustments | | **89** | (113) |
| **Balance at end of year** | | **43,847** | 41,136 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **15,102** | 13,060 |
| Amortization | *23* | **2,973** | 2,661 |
| Disposals/reclassifications | | **(787)** | (592) |
| Currency translation adjustments | | **31** | (27) |
| **Balance at end of year** | | **17,319** | 15,102 |
| **Accumulated Impairment** | | | |
| Balance at beginning of year | | **734** | 681 |
| Impairment | *22* | **738** | 682 |
| Disposals/reclassifications | | **(736)** | (626) |
| Currency translation adjustments | | **-** | (3) |
| **Balance at end of year** | | **736** | 734 |
| | | **P25,792** | P25,300 |

## 17. Accounts Payable and Accrued Expenses

This account consists of:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Trade: | | | |
| Amounts owed to third parties | *33* | **P4,019** | P4,752 |
| Amounts owed to related parties | *28, 33* | **2,995** | 2,060 |
| Containers deposit | | **7,019** | 6,230 |
| Non-trade: | | | |
| Derivative liabilities | *32, 33* | **38** | 3 |
| Amounts owed to related parties | *28, 33* | **7** | 4 |
| Accruals: | | | |
| Payroll | | **815** | 761 |
| Advertising and promotions | | **657** | 616 |
| Capital projects | | **535** | 599 |
| Materials and supplies | | **247** | 59 |
| Interests | *18* | **157** | 336 |
| Contracted services | | **72** | 39 |
| Utilities | | **29** | 27 |
| Others | | **508** | 537 |
| | | **P17,098** | P16,023 |

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. Long-term Debt

Long-term Debt
This account consists of:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Unsecured peso-denominated bonds and term notes: | | | |
| Series F bonds, fixed interest rate of 6.60% | | **P6,998** | P6,988 |
| Series G bonds, fixed interest rate of 5.50% | | **-** | 12,456 |
| Series H bonds, fixed interest rate of 6.00% | | **2,531** | 2,528 |
| Term Loans, fixed interest rates of 3.80% to 4.63% | | **21,859** | 9,939 |
| | *32, 33* | **31,388** | 31,911 |
| Less: Current maturities | | **7,015** | 12,456 |
| | | **P24,373** | P19,455 |

*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 the Series F bonds which remain outstanding of the P20,000 bonds (P20,000 Bonds) that 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 were 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 the said date. 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 F bonds amounted to P2 and P12 as of December 31, 2021 and 2020, 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. The Series G bonds with an aggregate principal amount of P12,462 matured on April 5, 2021 (April 2 being a non-business day) and were accordingly redeemed by the Company on the said date. Unamortized debt issue costs related to the P15,000 Bonds amounted to P7 and P16 as of December 31, 2021 and 2020, 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 10$^{th}$ P20,000 Bonds Interest Payment Date for the Series E bonds, and the 14$^{th}$ 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 11$^{th}$ P15,000 Bonds Interest Payment Date for the Series G bonds, and on the 14$^{th}$, 16$^{th}$ or 18$^{th}$ P15,000 Bonds Interest Payment Dates for the Series H bonds.

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, 2021 and 2020, the Group was in compliance with its debt covenants.

*Term Loans*

On March 30, 2021, the Company entered into unsecured, long-term, interest-bearing loans from several local banks amounting to P12,000 to be used to refinance the maturity of the Series G bonds which matured on April 5, 2021 and/or general corporate purposes. The loans are carried at amortized cost and bears annual interest rates at Philippine peso fixed-rate ranging from 3.80% to 4.15%. The loans are payable between one to seven years in accordance with the terms of the Agreement.

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, 2021 and 2020, the outstanding balance of the term loan amounted to P21,984 and P10,000, respectively. As of December 31, 2021 and 2020, the unamortized debt issue costs amounted to P125 and P61, respectively.

The Group is required to comply with two financial covenants: minimum interest coverage ratio of 4.75 and 2.0 for loans secured in 2019 and 2021, respectively and maximum debt to equity ratio of 3.5. As of December 31, 2021 and 2020, the Group was in compliance with its debt covenants.

The movements in debt issue costs are as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P89** | P134 |
| Additions | | **90** | - |
| Amortization | *25* | **(45)** | (45) |
| Balance at end of year | | **P134** | P89 |

Repayment Schedule
As of December 31, 2021, the annual maturities of long-term debt are as follows:

| **Year** | **Gross Amount** | **Debt Issue Costs** | **Net** |
|---|---|---|---|
| 2022 | P7,021 | P6 | P7,015 |
| 2023 | 21 | 4 | 17 |
| 2024 | 12,559 | 58 | 12,501 |
| 2025 | 21 | 4 | 17 |
| 2026 | 10,020 | 51 | 9,969 |
| 2027 | 160 | 2 | 158 |
| 2028 | 1,720 | 9 | 1,711 |
| | **P31,522** | **P134** | **P31,388** |

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 |

Interest expense recognized in the consolidated statements of income amounted to P1,628, P1,794, and P1,535 in 2021, 2020 and 2019, 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 bonds amounting to P9,808 and P22,858 as of December 31, 2021 and 2020, 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 P22,373 and P10,901 as of December 31, 2021 and 2020, respectively, has been categorized as Level 2 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 33).

Reconciliation of the opening and closing balance of term loan and bonds are as follows:

| **2021** | **Bonds** | **Term Loan** | **Accrued Interests** | **Total** |
|---|---|---|---|---|
| Opening balance | **P21,972** | **P9,939** | **P336** | **P32,247** |
| Interest expense and other financing charges | **19** | **26** | **1,628** | **1,673** |
| Availments | **-** | **11,910** | **-** | **11,910** |
| Payments | **(12,462)** | **(16)** | **(1,808)** | **(14,286)** |
| **Closing balance** | **P9,529** | **P21,859** | **P156** | **P31,544** |

| 2020 | Bonds | Term Loan | Accrued Interests | Total |
|---|---|---|---|---|
| Opening balance | 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 | P21,972 | P9,939 | P336 | P32,247 |

## 19. Income Taxes

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

| | **2021** | 2020 |
|---|---|---|
| **Items recognized in profit or loss** | | |
| Allowance for inventory losses | **P246** | P246 |
| Net defined benefit retirement asset | **(205)** | (182) |
| Allowance for impairment losses on trade and other receivables | **64** | 95 |
| Unrealized losses on derivatives - net | **38** | 25 |
| Unrealized foreign exchange losses (gains) - net | **7** | 6 |
| Leases | **82** | 76 |
| Others | **69** | 43 |
| **Item recognized directly in other comprehensive income** | | |
| Equity reserve for retirement plan | **317** | 609 |
| | **P618** | P918 |

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

| | Balance at Beginning of the Year - net | Recognized in Profit or Loss | Recognized in Other Comprehensive Income: Equity Reserve for retirement Plan | Recognized in Other Comprehensive Income: Currency Translation Adjustments | December 31, 2021: Balance at End of the Year - net | December 31, 2021: Deferred Tax Assets | December 31, 2021: Deferred Tax Liabilities |
|---|---|---|---|---|---|---|---|
| Equity reserve for retirement plan | **P609** | **P -** | **(P299)** | **P7** | **P317** | **P314** | **P3** |
| Allowance for inventory losses | **246** | **(2)** | **-** | **2** | **246** | **246** | **-** |
| Net defined benefit retirement asset | **(182)** | **(15)** | **-** | **(8)** | **(205)** | **41** | **(246)** |
| Allowance for impairment losses on receivables | **95** | **(30)** | **-** | **(1)** | **64** | **64** | **-** |
| Unrealized losses (gains) on derivatives - net | **25** | **12** | **-** | **1** | **38** | **38** | **-** |
| Unrealized foreign exchange gains - net | **6** | **1** | **-** | **-** | **7** | **7** | **-** |
| Leases | **76** | **6** | **-** | **-** | **82** | **82** | **-** |
| Others | **43** | **17** | **-** | **9** | **69** | **69** | **-** |
| Net assets | **P918** | **(P11)** | **(P299)** | **P10** | **P618** | **P861** | **(P243)** |

| | Balance at Beginning of the Year - net | Recognized in Profit or Loss | Recognized in Other Comprehensive Income: Equity Reserve for Retirement Plan | Recognized in Other Comprehensive Income: Currency Translation Adjustments | December 31, 2020: Balance at End of the Year - net | December 31, 2020: Deferred Tax Assets | December 31, 2020: 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 - |

The components of income tax expense are shown below:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current | **P5,559** | P6,912 | P10,987 |
| Final | **9** | 226 | 358 |
| Deferred | **136** | (50) | 136 |
| | **P5,704** | P7,088 | P11,481 |

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Statutory income tax rate | **25.00%** | 30.00% | 30.00% |
| Decrease in income tax rate resulting from: | | | |
| Income subjected to final tax | **(0.24)** | (0.66) | (0.79) |
| Effect of change in tax rate | **(2.04)** | - | - |
| Others | **(0.86)** | (0.39) | (0.37) |
| Effective income tax rate | **21.86%** | 28.95% | 28.84% |

*Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*
The CREATE Act, which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Company are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021 (i.e., 25% RCIT, 1% MCIT) for financial reporting purposes.

The impact on the Group's consolidated financial statements based on balances as at and for the year ended December 31, 2020, are as follows:

| | |
|---|---|
| **ASSET** | |
| Deferred tax assets | (P126) |
| **LIABILITIES AND EQUITY** | |
| Income and other taxes payable | P557 |
| Equity reserves | 101 |
| Retained earnings | (532) |
| | P126 |
| **INCOME TAX EXPENSE** | |
| Current | (P557) |
| Deferred | 25 |
| | (532) |
| **NET INCOME** | P532 |

## 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 accordingly, were 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, 2021 and 2020, 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, 2021 and 2020, 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 report date.

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, 2021**

| **Date of Declaration** | **Stockholders of Record** | **Date Paid** | **Dividend Per Share** | **Amount** |
|---|---|---|---|---|
| February 5, 2021 | February 22, 2021 | March 2, 2021 | **P0.25** | **P3,840** |
| April 30, 2021 | May 17, 2021 | May 31, 2021 | **0.25** | **3,840** |
| August 3, 2021 | August 17, 2021 | September 2, 2021 | **0.25** | **3,841** |
| November 5, 2021 | November 22, 2021 | December 9, 2021 | **0.25** | **3,841** |
| | | | | **P15,362** |

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 |

On February 8, 2022, the BOD of the Company declared cash dividends at P0.25 per share to all stockholders of record as of February 22, 2022 which was paid on March 2, 2022.

The movements in appropriated retained earnings are as follows:

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P36,970** | P25,752 |
| Additional appropriations | *20a, 20b* | **16,211** | 17,000 |
| Reversal of appropriations | *20b, 20c, 20d* | **(16,870)** | (5,782) |
| Balance at end of year | | **P36,311** | P36,970 |

a. On December 3, 2021, the Company appropriated an additional P16,211 of its retained earnings for the repayment of the Company's term loans with various banks entered in 2021 and construction of malt terminal.

b. On December 4, 2020, the Company appropriated an additional P17,000 of its retained earnings for the repayment of the Company's term loan entered in 2019 and redemption of the Series F bonds in April 2022.

c. On December 4, 2019, the Company appropriated an additional P19,962 of its 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. P3,720 and P1,280 were disbursed for the foregoing projects in 2021 and 2020, respectively and were accordingly reversed. The P12,462 appropriation for the redemption of the Company's Series G bonds was reversed upon the redemption of the Series G bonds in April 2021. The remaining P2,500 appropriation will be used for the capacity expansion of Bacolod Brewery.

d. 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, P688, P4,502 and P5,810 were disbursed for the foregoing projects in 2021, 2020 and 2019, respectively and were accordingly reversed. The remaining P600 appropriation will be used to settle the outstanding payables related to the aforementioned construction 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*** | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Taxes and licenses | | **P54,337** | P49,975 | P57,595 |
| Inventories | *9* | **10,634** | 10,159 | 14,895 |
| Communications, light, fuel and water | | **2,544** | 2,060 | 2,891 |
| Personnel | *24* | **1,635** | 1,594 | 1,890 |
| Depreciation and amortization | *23* | **1,380** | 1,131 | 1,161 |
| Repairs and maintenance | | **411** | 533 | 673 |
| Rent | *4, 29* | **25** | 24 | 22 |
| Others | | **426** | 399 | 464 |
| | | **P71,392** | P65,875 | P79,591 |

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:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Selling | **P7,818** | P7,605 | P12,731 |
| Administrative | **10,161** | 9,981 | 11,230 |
| | **P17,979** | P17,586 | P23,961 |

Selling expenses consist of:

| | *Note* | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Advertising and promotion | | **P2,672** | P2,213 | P5,334 |
| Freight, trucking and handling | | **1,936** | 1,954 | 3,617 |
| Personnel | *24* | **1,828** | 1,826 | 2,055 |
| Rent | *4, 29* | **439** | 418 | 595 |
| Taxes and licenses | | **255** | 340 | 313 |
| Depreciation and amortization | *23* | **226** | 268 | 248 |
| Travel and transportation | | **93** | 104 | 169 |
| Repairs and maintenance | | **84** | 81 | 110 |
| Communications, light, fuel and water | | **83** | 67 | 98 |
| Provision for (reversal of) impairment losses on receivables | *8* | **16** | 164 | (2) |
| Others | | **186** | 170 | 194 |
| | | **P7,818** | P7,605 | P12,731 |

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

Administrative expenses consist of:

| | *Note* | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Personnel | *24* | **P2,847** | P3,082 | P3,410 |
| Depreciation and amortization | *23* | **3,519** | 3,229 | 3,335 |
| Contracted services | | **894** | 815 | 954 |
| Provision for inventory losses and deferred containers | *9, 16* | **785** | 696 | 632 |
| Communications, light, fuel and water | | **398** | 251 | 411 |
| Management fees | *28* | **364** | 367 | 400 |
| Breakages | | **278** | 298 | 344 |
| Repairs and maintenance | | **257** | 225 | 328 |
| Professional fees | | **167** | 236 | 272 |
| Taxes and licenses | | **107** | 99 | 167 |
| Donations | | **78** | 435 | 158 |
| Rent | *4, 29* | **56** | 47 | 67 |
| Travel and transportation | | **52** | 60 | 150 |
| Research and development | | **40** | 18 | 98 |
| Shipping expenses | | **31** | 90 | 34 |
| Others | | **288** | 33 | 470 |
| | | **P10,161** | P9,981 | P11,230 |

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

## 23. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Cost of sales: | | | | |
| Property, plant and equipment | *12* | **P1,364** | P1,118 | P1,146 |
| Right-of-use of assets | *13* | **16** | 13 | 15 |
| | *21* | **1,380** | 1,131 | 1,161 |
| Selling and administrative expenses: | | | | |
| Deferred containers | *16* | **P2,973** | 2,661 | 2,900 |
| Property, plant and equipment | *12* | **416** | 460 | 313 |
| Right-of-use of assets | *13* | **255** | 272 | 259 |
| Others | *14, 15* | **101** | 104 | 111 |
| | *22* | **3,745** | 3,497 | 3,583 |
| | | **P5,125** | P4,628 | P4,744 |

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* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Salaries and wages | | **P4,066** | P4,137 | P4,506 |
| Other employee benefits | | **1,704** | 1,792 | 2,321 |
| Retirement costs | *30* | **540** | 573 | 528 |
| | | **P6,310** | P6,502 | P7,355 |

Personnel expense is distributed as follows:

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Cost of sales | *21* | **P1,635** | P1,594 | P1,890 |
| Selling expenses | *22* | **1,828** | 1,826 | 2,055 |
| Administrative expenses | *22* | **2,847** | 3,082 | 3,410 |
| | | **P6,310** | P6,502 | P7,355 |

## 25. Interest Expense and Other Financing Charges

This account consists of:

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Interest expense - Long-term debt | *18* | **P1,628** | P1,794 | P1,535 |
| Interest expense - Lease | | **90** | 101 | 115 |
| Interest expense - Actuarial | *30* | **14** | 45 | 20 |
| Interest expense - External | | **1** | 113 | - |
| Amortization of debt issue costs | *18* | **45** | 45 | 36 |
| | | **P1,778** | P2,098 | P1,706 |

## 26. Other Income - net

This account consists of:

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Gain on received tax credit certificates | | **P170** | P1,569 | P1,430 |
| Gain (loss) on sale of Property and equipment | | **185** | (20) | 7 |
| Rent income | *4, 14, 29* | **179** | 181 | 173 |
| Foreign exchange gains (losses) - net | *32* | **36** | (11) | 23 |
| Royalty income | | **21** | 20 | 28 |
| Marked-to-market gain (loss) | *33* | **(54)** | 36 | 130 |
| Others | | **228** | (140) | (156) |
| | | **P765** | P1,635 | P1,635 |

Gain on received tax credit certificates (TCC) pertains to TCCs issued by the Bureau of Internal Revenue (BIR) to the Company for the tax refund cases of San Mig Light for the year 2019 and 2020 in 2021, tax refund cases for the years 2007, 2008 and 2011 in 2020 and tax refund cases for the years 2009 and 2010 in 2019 (Note 34).

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

## 27. Impairment Loss on Noncurrent Assets

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, SMBIL and SMCIC, shareholders of SMBB, passed a resolution approving the dissolution of SMBB. SMBB stopped operations and production activities from the date of the resolution and started liquidation.

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 P903 in 2019. 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.

## 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 FVOCI | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|
| Intermediate Parent | **2021** | **P139** | **P792** | **P20** | **P248** | **P5,100** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2020 | 21 | 1,114 | 15 | 171 | 4,803 | | |
| Shareholder | **2021** | **-** | **-** | **2** | **-** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2020 | - | - | 2 | - | - | | |
| Under Common Control | **2021** | **373** | **8,858** | **152** | **3,609** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | 2020 | 314 | 7,294 | 175 | 2,738 | - | | |
| | **2021** | **P512** | **P9,650** | **P174** | **P3,857** | **P5,100** | | |
| | 2020 | P335 | P8,408 | P192 | P2,909 | P4,803 | | |

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 P1 as of December 31, 2021 and 2020, respectively (Note 10). Amounts owed by related parties included under "Other noncurrent assets - net" account amounted to P6 and P3 as of December 31, 2021 and 2020 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, fuel and power and non-trade payables arising from the purchase of SMC's shares in BPI, professional fees, insurance, lease of outdoor advertising spaces, lease of land and building, 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 P855 and P843 for December 31, 2021 and 2020, respectively. Amounts owed to related parties included under "Other noncurrent liabilities" account in the consolidated statements of financial position both amounted to nil and P2 for December 31, 2021 and 2020, respectively.

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

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Short-term employee benefits | **P170** | P182 | P224 |
| Retirement costs | **30** | 35 | 29 |
| | **P200** | P217 | P253 |

## 29. Leasing Agreements

*Group as Lessor*
The Group leases some of its investment property under operating lease arrangements to third parties. The leases typically run for a period of one to 17 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:

| | 2021 | 2020 |
|---|---|---|
| Less than one year | **P144** | P148 |
| Between one and five years | **72** | 135 |
| More than five years | **2** | 2 |
| | **P218** | P285 |

Rent income recognized in the consolidated statements of income amounted to P179, P181 and P173 in 2021, 2020 and 2019, 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 50 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 Group is a lessee are presented below.

Movements in lease liabilities are as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance at January 1 | **P1,263** | P1,237 |
| Additions | **512** | 240 |
| Interest expense | **90** | 101 |
| Payments | **(308)** | (315) |
| Currency translation adjustments | **2** | - |
| Reclassification | **(272)** | - |
| Balance at December 31 | **P1,287** | P1,263 |

Amounts recognized in profit or loss:

| Leases under PFRS 16 | 2021 | 2020 |
|---|---|---|
| Interest on lease liabilities | **90** | P101 |
| Income from sub-leasing right-of-use assets | **(159)** | (159) |
| Expenses relating to short-term leases and low-value assets | **520** | 489 |
| Amortization of ROU | **271** | 285 |

The Group had total cash outflows for the above leases amounting to P828 and P804 in 2021 and 2020, respectively.

The Group accounted some of its agreements for the lease of office spaces and vehicles, and other operating leases as short-term leases and/or low value assets. Expenses related to this are included as part of rent expense under “Cost of Sales” and “Selling and Administrative Expenses” in the consolidated statements of income.

Rent expense recognized in the consolidated statements of income amounted to P520, P489 and P684 in 2021, 2020 and 2019, 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, 2021. Valuations are obtained on a periodic basis.

The Company’s Retirement Plan, San Miguel Brewery Inc. Retirement Plan (SMBRP), is registered with the BIR as a tax qualified plan under Republic Act No. 4917, as amended. The control and administration of the Company’s Retirement Plan is vested in the Board of Trustees (BOT) of the 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 P482, P518, and P470 in 2021, 2020 and 2019, respectively, while those charged by the subsidiaries amounted to P58, P55, and P58 in 2021, 2020 and 2019, 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 | | Effect of Asset Ceiling | | Net Defined Benefit Retirement Liability (Asset) | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Balance at beginning of year** | **P11,481** | P12,642 | **P11,448** | P12,241 | **(P6)** | P - | **P39** | P401 |
| **Recognized in Profit or Loss** | | | | | | | | |
| Current service cost | **539** | 573 | **-** | - | **-** | - | **539** | 573 |
| Interest expense | **416** | 619 | **-** | - | **-** | - | **416** | 619 |
| Interest income | **-** | - | **402** | 585 | **-** | - | **(402)** | (585) |
| Administrative expense paid out of plan assets | **-** | - | **(1)** | - | **-** | - | **1** | - |
| | **955** | 1,192 | **401** | 585 | **-** | - | **554** | 607 |
| **Recognized in Other Comprehensive Income** | | | | | | | | |
| Remeasurements: | | | | | | | | |
| Actuarial (gains) losses arising from: | | | | | | | | |
| Experience adjustments | **(562)** | (1,582) | **-** | - | **-** | - | **(562)** | (1,582) |
| Changes in financial assumptions | **(842)** | 234 | **-** | - | **-** | - | **(842)** | 234 |
| Changes in demographic assumptions | **132** | 44 | **-** | - | **-** | - | **132** | 44 |
| Return on plan assets excluding interest | **-** | - | **(402)** | (894) | **(58)** | - | **460** | 894 |
| Changes in the effect of asset ceiling | **-** | - | **-** | - | **-** | (6) | **-** | 6 |
| | **(1,272)** | (1,304) | **(402)** | (894) | **(58)** | (6) | **(812)** | (404) |
| **Others** | | | | | | | | |
| Contributions | **-** | - | **413** | 541 | **-** | - | **(413)** | (541) |
| Benefits paid | **(859)** | (1,003) | **(846)** | (993) | **-** | - | **(13)** | (10) |
| Translation and other adjustments | **79** | (46) | **56** | (32) | **-** | - | **23** | (14) |
| | **(780)** | (1,049) | **(377)** | (484) | **-** | - | **(403)** | (565) |
| **Balance at end of year** | **P10,384** | P11,481 | **P11,070** | P11,448 | **(P64)** | (P6) | **(P622)** | P39 |

As of December 31, 2021 and 2020, the net defined benefit retirement liability included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P187 and P195, respectively.

As of December 31, 2021 and 2020, the net defined benefit retirement asset included as part of "Other noncurrent assets-net" account in the consolidated statements of financial position amounted to P809 and P157, respectively.

The retirement costs amounting to P540, P573 and P528 in 2021, 2020 and 2019, 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, 2021 and 2020.

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

| | In Percentages | |
|---|---|---|
| | **2021** | 2020 |
| Investments in marketable securities and shares of stock | **69** | 73 |
| Investment in pooled funds: | | |
| Stock trading portfolio | **4** | 4 |
| Fixed income portfolio | **10** | 10 |
| Others | **17** | 13 |

*Investments in Marketable Securities*
As of December 31, 2021, 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** | | **102** |
| SMC | **Common** | **19,291,890** | **114.90 per share** |
| | **Preferred:** | | |
| | **Subseries F** | **8,000,000** | **79.25 per share** |
| | **Subseries I** | **6,153,600** | **79.65 per share** |
| | **Subseries J** | **2,630,000** | **76.50 per share** |
| | **Subseries K** | **200,000** | **75.85 per share** |
| | **Bonds** | | **771** |
| TFIH | **Common** | **1,864,314** | **127.70 per share** |
| Ginebra San Miguel Inc. (GSMI) | **Common** | **2,320,152** | **113.80 per share** |
| Petron Corporation | **Preferred** | **200,000** | **1,119 per share** |
| (Petron) | **Common** | **1,764,000** | **3.17 per share** |
| | **Bond** | | **105** |
| SMFB | **Common** | **241,360** | **71.40 per share** |
| | **Bond** | | **154** |
| South Luzon Tollway Corporation (SLTC) | **Bond** | | **103** |
| SMC Global Power Holdings Corp. (SMC Global) | **Bond** | | **288** |

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 |
| GSMI | Common | 2,990,432 | 49.40 per share |
| | 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 |
| SLTC | Bond | - | 102 |
| SMC Global | Bond | - | 391 |

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 (losses) on the investment in marketable securities of SMC and its subsidiaries amounting to (P87), (P771) and P439 in 2021, 2020 and 2019, respectively.

Dividend income of SMBRP from the investment in shares of stock of SMC and its subsidiaries amounted to P166, P167 and P179 in 2021, 2020 and 2019, respectively.

*Investments in Shares of Stock*
As of December 31, 2021 and 2020, 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.

*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 52.70% and 42.43% 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, 2021 and 2020, respectively.

Approximately 16.76% and 15.10% 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, 2021 and 2020, respectively.

*Others*
Others include cash and cash equivalents, interest receivable 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 P38 to the Retirement Plans in 2022.

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 | |
|---|---|---|
| | **2021** | 2020 |
| Discount rate | **0.4 - 6.75** | 0.4 - 6.3 |
| Salary increase rate | **2.0 - 8.0** | 2.0 - 8.0 |

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

As of December 31, 2021 and 2020, the weighted average duration of defined benefit retirement obligation is 4.3 - 8.76 and 5.0 - 8.8 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.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **1 Percent Increase** | **1 Percent Decrease** | 1 Percent Increase | 1 Percent Decrease |
| Discount rate | **(P630)** | **P752** | (P743) | P868 |
| Salary increase rate | **760** | **(656)** | 867 | (762) |

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

## 31. Earnings Per Share

Basic and diluted EPS is computed as follows:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Net income attributable to equity holders of the Company (a) | **P20,029** | P17,161 | P26,720 |
| Weighted average number of shares outstanding (in millions) (b) | **15,359** | 15,359 | 15,359 |
| Basic/diluted EPS (a/b) | **P1.30** | P1.12 | P1.74 |

As of December 31, 2021, 2020 and 2019, the Group has no dilutive debt or equity instruments.

## 32. Financial Risk and Capital Management, Objectives and Policies

Objectives and Policies

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

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, 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 2021 and 2020.

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, 2021** | | | | |
| Bonds | | | | |
| Philippine peso-denominated | **P9,538** | **P -** | **P -** | **P9,538** |
| Interest rate | **6%** | **-** | **-** | **-** |
| Term Loan | | | | |
| Philippine peso-denominated | **10,063** | **10,041** | **1,880** | **21,984** |
| Interest rate | **3.875% - 4.63%** | **3.8% - 4.15%** | **4.15%** | **-** |
| December 31, 2020 | | | | |
| Bonds | | | | |
| Philippine peso-denominated | P19,462 | - | - | 19,462 |
| Interest rate | 5.5%-6.6% | - | - | - |
| Term Loan | | | | |
| Philippine peso-denominated | - | 12,538 | - | 12,538 |
| Interest rate | - | 4.6% - 6.0% | - | - |

<u>Foreign Currency Risk</u>

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

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:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **US Dollar*** | **Peso Equivalent** | US Dollar* | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **$204.2** | **P10,412** | $169.8 | P8,157 |
| Trade and other receivables | **19.4** | **991** | 23.2 | 1,113 |
| Noncurrent receivables | **0.2** | **10** | 0.2 | 10 |
| | **223.8** | **11,413** | 193.2 | 9,280 |
| **Liabilities** | | | | |
| Accounts payable and accrued expenses | **73.9** | **3,769** | 112.4 | 5,396 |
| Lease liabilities | **0.7** | **38** | 0.3 | 16 |
| Noncurrent liabilities | **0.3** | **15** | - | - |
| | **74.9** | **3,822** | 112.7 | 5,412 |
| **Net foreign currency-denominated monetary assets** | **$148.9** | **P7,591** | $80.5 | P3,868 |

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

The Group reported net foreign exchange gains (losses) amounting to P36, (P11) and P23 in 2021, 2020, and 2019, 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, 2021** | **51.00** |
| December 31, 2020 | 48.02 |
| December 31, 2019 | 50.64 |

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, 2021** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P17)** | **(200)** | **P17** | **P200** |
| Trade and other receivables | **-** | **(19)** | **-** | **19** |
| | **(17)** | **(219)** | **17** | **219** |
| Accounts payable and accrued expenses | **15** | **70** | **(15)** | **(70)** |
| Lease liabilities | **-** | **1** | **-** | **(1)** |
| | **P15** | **P71** | **(P15)** | **(P71)** |
| | **(P2)** | **(P148)** | **P2** | **P148** |

| | 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 |

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, 2021**

| | **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 | **P26,863** | **P26,863** | **P26,863** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **7,977** | **7,977** | **7,977** | **-** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **9** | **9** | **9** | **-** | **-** | **-** |
| Financial assets at FVOCI | **5,137** | **5,137** | **-** | **-** | **-** | **5,137** |
| Noncurrent receivables (included under "Other noncurrent assets-net" account) | **12** | **12** | **-** | **4** | **8** | **-** |
| **Financial Liabilities** | | | | | | |
| Accounts payable and accrued expenses (excluding cash dividends payable) | **17,024** | **17,024** | **17,024** | **-** | **-** | **-** |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **38** | **38** | **38** | **-** | **-** | **-** |
| Long-term debt (including current maturities) | **31,388** | **35,554** | **8,235** | **1,118** | **24,227** | **1,974** |
| Lease liabilities (including current portion) | **1,287** | **2,166** | **241** | **194** | **450** | **1,281** |
| Noncurrent liabilities | **14** | **14** | **-** | **-** | **-** | **14** |

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 |

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* | **2021** | 2020 |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | *4, 7* | **P26,764** | P23,532 |
| Trade and other receivables - net | *8* | **7,977** | 5,662 |
| Derivative assets | *10* | **9** | 25 |
| Noncurrent receivables | *16* | **12** | 12 |
| | | **P34,762** | P29,231 |

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.

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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) | P26,764 | P - | P - | P - | P - | P26,764 |
| Trade and other receivables | 7,977 | - | 344 | - | - | 8,321 |
| Derivative assets | - | - | - | 9 | - | 9 |
| Noncurrent receivables | - | 12 | - | - | - | 12 |

| | 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 |

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:

**2021**

| | **Gross Carrying Amount** | | **ECL Rate** | | |
|---|---|---|---|---|---|
| **Aging** | **Trade Receivables** | **Other Receivables** | **Trade Receivables** | **Other Receivables** | **ECL Amount** |
| Current | **6,558** | **834** | **1.23%** | **12.27%** | **P183** |
| Past due | | | | | |
| Less than 30 days | **665** | **21** | **1.39%** | **13.13%** | **12** |
| 30 - 60 days | **20** | **8** | **9.01%** | **25.97%** | **4** |
| 61 - 90 days | **10** | **37** | **13.29%** | **11.11%** | **5** |
| Over 90 days | **107** | **61** | **95.82%** | **61.77%** | **140** |
| | **P7,360** | **P961** | **2.65%** | **15.48%** | **P344** |

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 |

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 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.

## 33. Financial Assets and Financial Liabilities

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

| | **December 31, 2021** | | December 31, 2020 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P26,863** | **P26,863** | P24,185 | P24,185 |
| Trade and other receivables - net | **7,977** | **7,977** | 5,662 | 5,662 |
| Derivative assets (included under "Prepaid expenses and other current assets" account) | **9** | **9** | 25 | 25 |
| Financial assets at FVOCI | **5,137** | **5,137** | 4,837 | 4,837 |
| Noncurrent receivables (included under "Other noncurrent assets-net" account) | **12** | **12** | 12 | 12 |
| **Financial Liabilities** | | | | |
| Accounts payable and accrued expenses (excluding cash dividends payable) | **17,024** | **17,024** | 15,990 | 15,990 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" account) | **38** | **38** | 3 | 3 |
| Long-term debt (including current maturities) | **31,388** | **32,181** | 31,911 | 33,759 |
| Other noncurrent liabilities | **14** | **14** | - | - |

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.

*Term Loans and Bonds.* 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, 2021 and 2020, discount rates used ranged from 0.97% to 4.49% and 1.11% to 2.31%, respectively.

*Other Noncurrent Liabilities.* The fair value is based on the present value of expected cash flows using the applicable discount rates based on current market rates of similar instruments.

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$42 and US$21 as of December 31, 2021 and 2020, 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 (negative) fair value of these embedded currency forwards amounted to (P29) and P22 in 2021 and 2020, respectively.

The Group recognized marked-to-market gains (losses) from embedded derivatives amounting to (P54), P36 and P130 in 2021, 2020 and 2019, respectively (Note 26).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

| | **2021** | 2020 |
|---|---|---|
| Balance at beginning of year | **P22** | P52 |
| Net change in fair value of non-accounting hedges | **(54)** | 36 |
| | **(32)** | 88 |
| Less fair value of settled instruments | **(3)** | 66 |
| Balance at end of year | **(P29)** | P22 |

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, 2021** | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | Level 2 | Total | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P9** | **P9** | P - | P25 | P25 |
| Financial assets at FVOCI | **5,137** | **-** | **5,137** | 4,837 | - | 4,837 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **38** | **38** | - | 3 | 3 |

As of December 31, 2021 and 2020, the Group has no financial instruments valued based on Level 3. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 34. Other Matters

a. *Commitments*

The outstanding purchase commitments of the Group as of December 31, 2021 amounted to P10,373.

Amount authorized but not yet disbursed for capital projects as of December 31, 2021 is approximately P14,495.

b. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries to Philippine peso in 2021 and 2020 were closing rates of P51.00 and P48.02, respectively, for consolidated statements of financial position accounts, and average rates of P49.28, P49.62 and P51.79 in 2021, 2020 and 2019, 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.

<u>Filed by SMB</u>

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 13 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 11, 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); and

(m) thirteenth claim for refund of overpayments for the period of January 23, 2020 to February 9, 2020 - docketed as CTA Case No. 10745 (via electronic mail on January 21, 2022, registered mail on January 24, 2022, and personal filing on February 2, 2022)

CTA Case No. 7973 was consolidated with CTA Case No. 7953 (filed by SMC). 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. The remaining P20 was applied in 2021.

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.

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 Supreme Court issued a Resolution dated January 27, 2021 denying the BIR's Petition for Review for failure to show any reversible error warranting the exercise by the Supreme Court of its discretionary appellate jurisdiction. SMB is awaiting the issuance of the corresponding Entry of Judgment.

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. On February 21, 2022, the CTA En Banc rendered a Decision denying the separate Petitions for Review. On March 1, 2022, SMB sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 258812.

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. On February 4, 2021, the CTA En Banc affirmed the decision of the CTA Second Division. Both parties filed motions for partial reconsideration of the CTA En Banc's Decision. In its October 22, 2021 Resolution, the CTA En Banc denied the parties' motions for reconsideration. On December 16, 2021, SMB filed a Petition for Review on Certiorari with the Supreme Court docketed as G.R. No. 257784.

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. On February 10, 2022, the CTA En Banc rendered a Decision denying the Petitions for Review. On March 1, 2022, SMB sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 258813.

CTA Case No. 10000, SMB's claim for refund for P123, was filed on December 27, 2018 and is pending with the CTA Third Division. On September 22, 2021, the CTA Third Division partially granted SMB's Petition for Review and ordered the refund of P123. The BIR filed for a motion for reconsideration.

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. SMB filed a Motion to Withdraw the Petition for Review as the BIR issued a TCC in the amount of P162. In its November 29, 2021 Resolution, the CTA granted SMB's Motion to Withdraw the Petition and deemed the Petition as withdrawn and the case closed and terminated. P80 was applied to SMB's tax obligations in 2021.

CTA Case No. 10745, SMB's claim for refund for P1,069, was personally filed on February 2, 2022. The case is yet to be raffled to a Division of the CTA. The case is a consolidation of two claims, to wit:

i. P8 under RA No. 10351 - the overpayment arose from the BIR's imposition of excise tax of P27.07 per liter on SMB's beer products for the period January 23, 2020 to February 9, 2020 based on RMC No. 90-2012 and RR No. 17-2012. Said BIR issuances are inconsistent with RA No. 10351 which imposes an excise tax of P26.44 per liter under Section 143 of the NIRC, as amended by RA No. 10351 beginning January 1, 2020.

ii. P1,061 under RA No. 11467 - the overpayment arose from the BIR's imposition of excise tax of P35.00 per liter on SMB's beer products, as provided under Section 143 of the NIRC, as amended by RA No. 11467, for the period January 23, 2020 to February 9, 2020. The said imposition was based on RMC No. 65-2020, as amended by RMC No. 113-2020, implementing RA No. 11467 at an earlier date (i.e., January 23, 2020) which is inconsistent with the actual effectivity date of RA No. 11467 (i.e., February 10, 2020).

Administrative Case
An administrative claim for refund of overpayments of excise taxes for the period of January 1, 2020 to January 22, 2020 in the amount of P8 was filed with the BIR on October 7, 2021. The BIR issued a TCC on December 17, 2021 in favor of SMB in the amount of P8. As at December 31, 2021, the TCC was not yet applied to any of SMB's tax obligations.

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. IBI's Petition was denied with finality on June 26, 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.

On July 6, 2021, the Supreme Court approved the Compromise Agreement and considered G.R. Nos. 240651 and 240665 closed and terminated.

(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.

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. 246911-12 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 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.

On March 3, 2021, the Supreme Court considered GR Nos. 246911-12 and 246865, closed and terminated.

(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 (Primary Purpose Amendment) 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.

On March 16, 2021, the SEC approved the Primary Purpose Amendment in the Company's Amended Articles of Incorporation.

*f. Effect of COVID-19*

Generally, 2021 is an improvement over 2020, with the Group posting significant recoveries in sales and operating income despite continued impact of COVID-19 in both the domestic and international markets. Accelerated vaccination roll-out in 2021 raised optimism, but the spread of more aggressive and highly transmissible COVID variants prompted re-implementation of COVID-19 restrictions in NCR and selected key cities in the Philippines as well as some markets in the international operations such as Thailand, Vietnam, Hong Kong and, China. Meanwhile, the market has adjusted to lingering COVID concerns and limitations in on-premise as purchases shifted to off-premise channels such as supermarkets, convenience and neighborhood provision stores. Other emerging consumer behaviors noted during the pandemic were increased online shopping as well as growing preference for multipacks and canned variants.

*g. Effect of Ukraine-Russia War*

While the Group has very minimal or no direct business in Russia and Ukraine, the Russia-Ukraine conflict could affect global supply and prices of production inputs, including malt and fuel costs, as well as shipping/freight costs.

The extent to which the ongoing conflict will affect the Group will depend on future developments, including the actions and decisions taken or not taken by the Organization of the Petroleum Exporting Countries and other oil producing countries, international community and the Philippine government, which are highly uncertain and cannot be quantified nor determined as at March 8, 2022.

# COVER SHEET

**For**

**AUDITED FINANCIAL STATEMENTS**

**SEC Registration Number**

C S 2 0 0 7 1 1 8 2 8

**COMPANY NAME**

S A N M I G U E L B R E W E R Y I N C . A N D
S U B S I D I A R I E S
( A S u b s i d i a r y o f S a n M I g u e l
F o o d & B e v e r a g e , I n c . )

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

N o . 4 0 S a n M i g u e l A v e n u e
M a n d a l u y o n g C i t y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

**COMPANY INFORMATION**

| Company's email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| nronquillo@smb.sanmiguel.com.ph | 632-3000 | |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,039 | Last Tuesday of May | December 31 |

**CONTACT PERSON INFORMATION**

**The designated contact person *MUST* be an Officer of the Corporation**

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Noemi L. Ronquillo | nronquillo@smb.sanmiguel.com.ph | 632-2258 | |

**CONTACT PERSON's ADDRESS**

No. 40 San Miguel Avenue, Mandaluyong City

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

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

R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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 its Subsidiaries (the "Group") as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 18, 2022. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

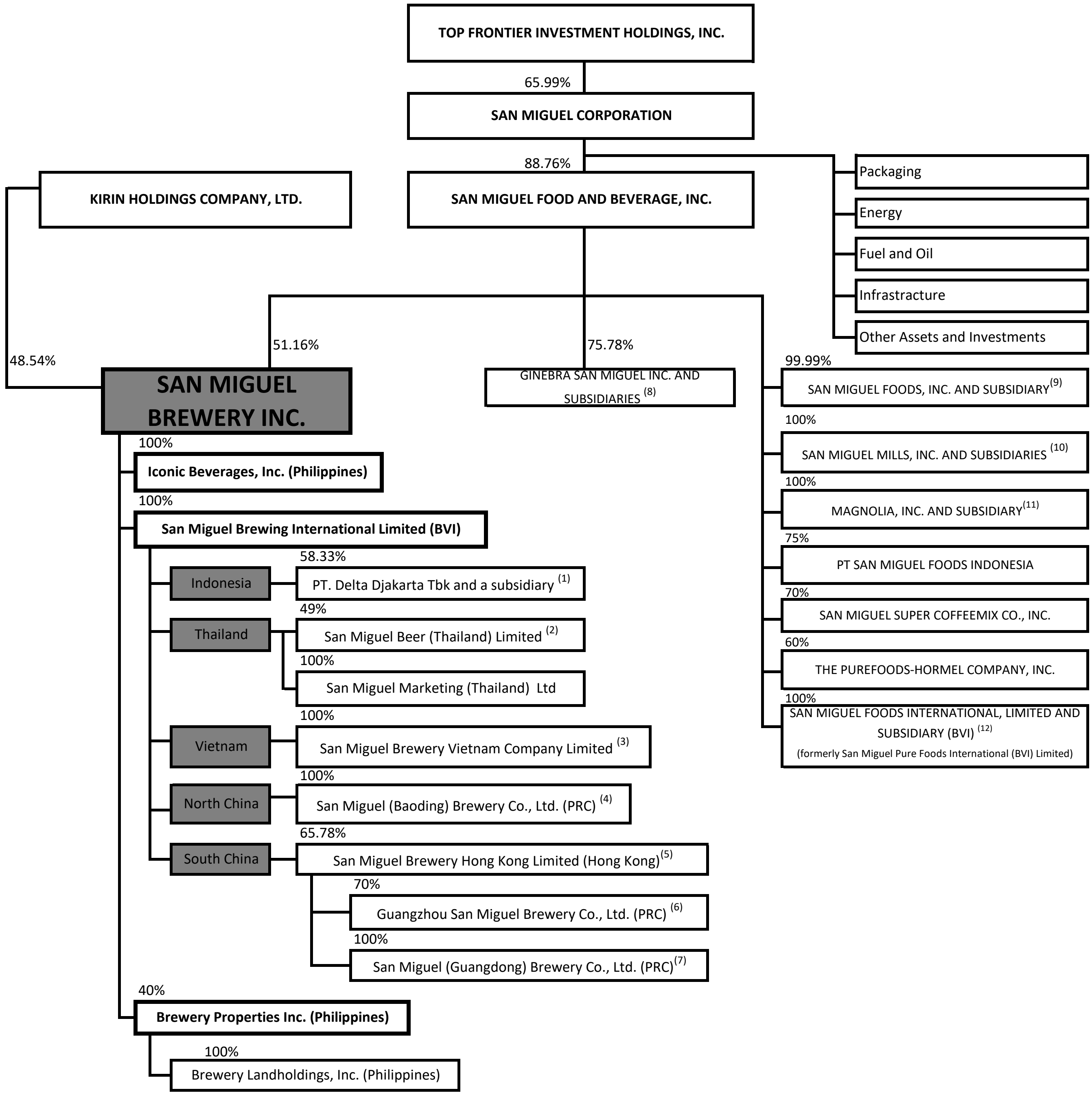
**R.G. MANABAT & CO.**

Maria Arleene C. Yu
MARIA ARLEENE C. YU
Partner
CPA License No. 0108855
SEC Accreditation No. 108855-SEC, Group A, valid for five (5) years covering the audit of 2021 to 2025 financial statements
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 8854089
Issued January 3, 2022 at Makati City

March 18, 2022
Makati City, Metro Manila

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)

**San Miguel Brewery Inc. and Subsidiaries**
As of December 31, 2021




(1) Owned thru San Miguel Malaysia(L) Pte. Ltd.
(2) Owned thru San Miguel Holdings (Thailand) Limited
(3) Owned thru Dragon Island Investments Limited and San Miguel (Vietnam) Limited
(4) Owned thru San Miguel Brewing International Limited and San Miguel (China) Investment Company Limited; undergoing liquidation
(5) Owned thru Neptunia Corporation Limited. Neptunia has a subsidiary, San Miguel Company Limited which operates in Taiwan. San Miguel Brewery Hong Kong Limited has a non-operating subsidiary, Hong Kong Brewery Limited.
(6) Owned thru San Miguel (Guangdong) Limited; undergoing liquidation
(7) Owned thru San Miguel Shunde Holdings Limited
(8) Ginebra San Miguel Inc. and subsidiaries, which include Distileria Bago, Inc., East Pacific Star Bottlers Phils. Inc., Healthy Condiments, Inc., Agricrops Industries Inc., Crown Royal Distillers, Inc., GSM International Holdings Limited and a subsidiary, Ginebra San Miguel International Ltd. and a subsidiary, Global Beverages Holdings Limited and Siam Holdings Limited and a subsidiary
(9) San Miguel Foods, Inc. and a subsidiary, Foodcrave Marketing, Inc.
(10) San Miguel Mills, Inc. and subsidiaries which include Golden Bay Grain Terminal Corporation and Golden Avenue Corp.
(11) Magnolia Inc. and a subsidiary, Golden Food Management, Inc.
(12) San Miguel Foods International, Limited (BVI) and a subsidiary, San Miguel PureFoods Investment (BVI) Limited

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES DECEMBER 31, 2021**

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**DECEMBER 31, 2021**
**(Amounts in Millions, except No. of Shares Data)**

| Name of Issuing Entity / Description of Each Issue | Number of shares | Amount Shown in the Statement of Financial Position | Value Based on Market Quotations at Dec. 31, 2021 | Income Received and Accrued |
|---|---|---|---|---|
| Cash and cash equivalents | - | ₱ 26,863 | ₱ 26,863 | ₱ 251 |
| Trade and other receivables - net | - | 7,977 | 7,977 | 3 |
| Derivative assets | - | 9 | 9 | - |
| Financial asset at fair value through OCI* | 20,404 | 5,137 | 5,137 | 123 |
| Noncurrent receivables | - | 12 | 12 | - |
| | 20,404 | ₱ 39,998 | ₱ 39,998 | ₱ 377 |

| * Financial asset at fair value through OCI | | | | |
|---|---|---|---|---|
| San Miguel Corporation | - | 5,100 | 5,100 | 123 |
| Neptunia Corporation Ltd. | | | | |
| HSBC Holdings | 20,400 | 6 | 6 | - |
| San Miguel Brewery Hong Kong | | | | |
| The Pacific Club Kowloon | 1 | 7 | 7 | - |
| The American Club Hong Kong | 1 | 9 | 9 | - |
| Hong Kong Football Club | 1 | 6 | 6 | - |
| Discovery Bay Golf Club | 1 | 9 | 9 | - |
| | 20,404 | 5,137 | 5,137 | 123 |

See Notes 4, 7, 8, 10, 11, 28, 32 and 33 of the Consolidated Financial Statements

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2021**
**(Amounts in Millions)**

| NAME OF RELATED PARTY | BEGINNING BALANCE | ADDITIONS | AMOUNTS COLLECTED | AMOUNTS WRITTEN OFF | CHANGE IN ACCOUNTING POLICY | CURRENT | NONCURRENT | ENDING BALANCE |
|---|---|---|---|---|---|---|---|---|
| SAN MIGUEL BREWING INTERNATIONAL LIMITED AND SUBSIDIARIES | P 26 | P 23 | P (21) | P - | P - | P 28 | P - | P 28 |
| BREWERY PROPERTIES INC. AND A SUBSIDIARY | 20 | - | (1) | - | - | 19 | - | 19 |
| | P 46 | P 23 | P (22) | P - | P - | P 47 | P - | P 47 |

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2021**
**(Amounts in Millions)**

| NAME OF RELATED PARTY | BEGINNING BALANCE | ADDITIONS | AMOUNTS COLLECTED | AMOUNTS WRITTEN OFF | CHANGE IN ACCOUNTING POLICY | CURRENT | NONCURRENT | ENDING BALANCE |
|---|---|---|---|---|---|---|---|---|
| SAN MIGUEL BREWING INTERNATIONAL LIMITED AND SUBSIDIARIES | ₱ - | ₱ 2 | ₱ (2) | ₱ - | ₱ | ₱ - | ₱ - | ₱ - |
| ICONIC BEVERAGES, INC. | 291 | ₱ 2,131 | (2,147) | - | | 275 | - | 275 |
| BREWERY PROPERTIES INC. AND A SUBSIDIARY | 2,517 | 250 | (260) | - | | 11 | 2,496 | 2,507 |
| | ₱ 2,808 | ₱ 2,383 | ₱ (2,409) | ₱ - | ₱ - | ₱ 286 | ₱ 2,496 | ₱ 2,782 |

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE D - INTANGIBLE ASSETS**
**DECEMBER 31, 2021**
**(Amounts in Millions)**

| Description | Beginning Balance | Additions | Disposals/ Reclassifications | Cumulative Translation Adjustments | Ending Balance |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Trademarks and brand names | ₱ 33,734 | ₱ - | ₱ - | ₱ 106 | ₱ 33,840 |
| Licenses | 2,105 | - | - | (95) | 2,010 |
| Computer software and licenses | 267 | 6 | (5) | 6 | 274 |
| Land use rights | - | - | - | - | - |
| | 36,106 | 6 | (5) | 17 | 36,124 |
| **Accumulated Amortization** | | | | | |
| Trademarks and brand names | - | - | - | - | - |
| Computer software and licenses | 242 | 11 | (4) | 5 | 254 |
| Land use rights | - | - | - | - | - |
| | 242 | 11 | (4) | 5 | 254 |
| **Accumulated Impairment Losses** | | | | | |
| Trademarks and brand names | 221 | - | - | 13 | 234 |
| Computer software and licenses | 5 | - | (1) | 1 | 5 |
| Land use rights | - | - | - | - | - |
| | 226 | - | (1) | 14 | 239 |
| **Carrying Amount** | ₱ 35,638 | ₱ (5) | ₱ - | ₱ (2) | ₱ 35,631 |

See Notes 4 and 15 of the Consolidated Financial Statements

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE E - LONG-TERM DEBT**
**DECEMBER 31, 2021**
**(Amounts in Millions)**

| TITLE OF ISSUE | AGENT/LENDER | Outstanding Balance | Current Portion of Debt | Transaction Cost Current | Amount Shown as Current | Long-term Noncurrent Portion of Debt | Noncurrent Transaction Cost | Amount Shown as Long-term | Current and Long-term | Interest Rates | Number of Periodic Installments | Interest Payments | Final Maturity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Unsecured term notes:** | | | | | | | | | | | | | |
| **Peso denominated:** | | | | | | | | | | | | | |
| Fixed | Philippine Depository & Trust Corp. | ₱ 7,000 | ₱ 7,000 | ₱ (2) | ₱ 6,998 | ₱ | ₱ | ₱ - | ₱ 6,998 | 6.60% | Bullet | Semi-annual | 4/2/2022 |
| Fixed | Philippine Depository & Trust Corp. | 2,538 | - | - | - | 2,538 | (7) | 2,531 | 2,531 | 6.00% | Bullet | Semi-annual | 4/2/2024 |
| Fixed | Bank of the Philippine Islands | 10,000 | - | - | - | 10,000 | (47) | 9,953 | 9,953 | 4.63% | Bullet | Quarterly | 12/26/2024 |
| Fixed | Banco De Oro Unibank, Inc. | 4,000 | - | - | - | 4,000 | (26) | 3,974 | 3,974 | 3.80% | Bullet | Quarterly | 3/30/2026 |
| Fixed | Bank of the Philippine Islands | 2,000 | - | - | - | 2,000 | (13) | 1,987 | 1,987 | 3.95% | Bullet | Quarterly | 3/30/2026 |
| Fixed | China Banking Corporation | 1,500 | - | - | - | 1,500 | (10) | 1,490 | 1,490 | 3.95% | Bullet | Quarterly | 3/30/2026 |
| Fixed | Rizal Commercial Banking Corporation | 2,484 | 21 | (4) | 17 | 2,463 | (12) | 2,451 | 2,468 | 3.88% | Bullet | Quarterly | 3/30/2026 |
| Fixed | Banco De Oro Unibank, Inc. | 2,000 | - | - | - | 2,000 | (13) | 1,987 | 1,987 | 4.15% | Bullet | Quarterly | 3/30/2028 |
| | | ₱ 31,522 | ₱ 7,021 | ₱ (6) | ₱ 7,015 | ₱ 24,501 | ₱ (128) | ₱ 24,373 | ₱ 31,388 | | | | |

See Notes 6, 18, 32 and 33 of the Consolidated Financial Statements

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**SCHEDULE H - CAPITAL STOCK**
**DECEMBER 31, 2021**

| Description | Number of Shares Authorized | Number of Shares Issued | Treasury Shares | Number of Shares Outstanding | Number of Shares Held by Directors and Officers |
|---|---|---|---|---|---|
| COMMON STOCK | 25,000,000,000 | 15,410,478,960 | 51,425,799 | 15,359,053,161 | 71,000 |

See Note 20 of the Consolidated Financial Statements

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**TRADE AND OTHER RECEIVABLES**
**DECEMBER 31, 2021**

| | | | PAST DUE | | | |
|---|---|---|---|---|---|---|
| TYPE OF ACCOUNTS RECEIVABLE | TOTAL | CURRENT | 1 - 30 DAYS | 31 - 60 DAYS | 61-90 DAYS | OVER 90 DAYS |
| Trade | ₱ 7,355 | ₱ 6,555 | P 665 | P 19 | P 10 | P 106 |
| Non-trade | 799 | 698 | 5 | 7 | 34 | 55 |
| Others | 167 | 140 | 16 | 2 | 3 | 6 |
| TOTAL | 8,321 | 7,393 | 686 | 28 | 47 | 167 |
| ALLOWANCE FOR DOUBTFUL ACCOUNTS | (344) | | | | | |
| NET | ₱ 7,977 | | | | | |

# SAN MIGUEL BREWERY INC.
## RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
## DECEMBER 31, 2021
## (Amount in Millions)

| | | | AMOUNT |
|---|---|---|---|
| **Total retained earnings available for dividend declaration as of December 31, 2020** | | | ₱ 22,441 |
| **Add: Net income actually earned/realized during the year:** | | | |
| **Net income during the year closed to retained earnings** | ₱ 18,224 | | |
| **Add : Non-actual losses** | | | |
| **Decrease in deferred tax asset** | 25 | | |
| **Unrealized foreign currency loss** | 7 | | |
| **Fair value adjustments -Marked to market loss** | 40 | | |
| **Sub-total** | 72 | | |
| **Net income actually earned during the year** | | | 18,296 |
| **Add (less): Adjustments during the year** | | | |
| **Dividend declarations during the year** | (15,362) | | |
| **Appropriations of retained earnings during the year** | (16,211) | | |
| **Reversal of appropriation** | 16,870 | | (14,703) |
| **Total retained earnings available for dividend declaration as of December 31, 2021** | | | ₱ 26,034 |

**SAN MIGUEL BREWERY INC. AND SUBSIDIARIES**
**KEY PERFORMANCE INDICATORS**
**DECEMBER 31, 2021 AND 2020**

| | December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Liquidity: | | |
| Current Ratio | 1.41 | 1.07 |
| Solvency: | | |
| Debt-to-Equity Ratio | 0.59 | 0.63 |
| Interest-bearing Debt-to-Equity Ratio | 0.35 | 0.38 |
| Asset-to-Equity Ratio | 1.59 | 1.63 |
| Profitability: | | |
| Return on Average Equity Attributable to Equity Holders of the Company | 23.69% | 21.16% |
| Interest Rate Coverage Ratio | 18.32 | 14.13 |

| | Years Ended December 31 | |
|---|---|---|
| | **2021** | **2020** |
| Operating Efficiency: | | |
| Volume Growth * | 1.24% | -33.00% |
| Revenue Growth | 7.74% | -24.14% |
| Operating Margin | 23.15% | 22.67% |

** Represents beer and malt-based beverage volumes only*

The manner by which the Group calculates the above indicators is as follows:

| **KPI** | **Formula** |
|---|---|
| Current Ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ |
| Debt-to-Equity Ratio | $\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$ |
| Interest-bearing Debt-to-Equity Ratio | $\frac{\text{Total Interest-Bearing Debt}}{\text{Equity + Non-controlling Interests}}$ |
| Asset-to-Equity Ratio | $\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity + Non-controlling Interests}}$ |
| Return on Average Equity | $\frac{\text{Net Income Attributable to Equity Holders of the Company}}{\text{Average Equity Attributable to Equity Holders of the Company}}$ |
| Interest Coverage Ratio | $\frac{\text{Earnings Before Interests, Taxes, Depreciation and Amortization}}{\text{Interest Expense and Other Financing Charges}}$ |
| Volume Growth (Decline) | $\left[\frac{\text{Current Period Sales Volume}}{\text{Prior Period Sales Volume}}\right] -1$ |
| Revenue Growth | $\left[\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}}\right] -1$ |
| Operating Margin | $\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$ |

# 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

**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**
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
P.O. Box 271 Manila
Central Post Office, Philippines
Telephone: (632) 8632-3000

**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 Food and Beverage Group
Telephone: (632) 8632-3417
Email: kigarcia@sanmiguel.com.ph
Fax: (632) 8632-3417

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

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

SAN MIGUEL
BREWERY INC.

A subsidiary of San Miguel Corporation