

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter

TOP FRONTIER INVESTMENT HOLDINGS, INC.

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

Philippines

4. SEC Identification Number

CS200803939

5. BIR Tax Identification Code

006-990-128

6. Address of principal office

5th Floor, ENZO Building, No. 399 Sen. Gil Puyat Ave., Makati City

Postal Code

1200

7. Registrant's telephone number, including area code

(02) 8632-3481

8. Date, time and place of the meeting of security holders

July 09, 2021; 2:00 p.m., via remote communication (live-streaming)

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

Jun 9, 2021

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

Top Frontier Investment Holdings, Inc.

Address and Telephone No.

5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
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Common Shares	332,886,167
Conso Total Liab. (as of 3.31.21 in millions Php)	1,333,555

13. Are any or all of registrant's securities listed on a Stock Exchange?

Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange; Common Shares

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



Top Frontier Investment Holdings, Inc. TFHI

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting *References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules*

Date of Stockholders' Meeting	Jul 9, 2021
Type (Annual or Special)	Annual
Time	2:00 p.m.
Venue	via remote communication (live-streaming). The Chairman will preside the Meeting at No. 40 San Miguel Avenue, Mandaluyong City.
Record Date	Jun 4, 2021

Inclusive Dates of Closing of Stock Transfer Books

Start Date	Jun 5, 2021
End date	Jun 11, 2021

Other Relevant Information

Please see attached Preliminary Information Statement under SEC Form 20-IS of Top Frontier Investment Holdings, Inc. for its 2021 Annual Stockholders' Meeting, as filed with the Securities and Exchange Commission, via email to its Markets and Securities Regulation Department, on May 21, 2021.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

C S 2 0 0 8 0 3 9 3 9

S. E. C. Registration Number

T O P F R O N T I E R

I N V E S T M E N T H O L D I N G S

I N C .

(Company's Full Name)

5 th F l o o r , E N Z O B l d g .

3 9 9 S e n . G i l P u y a t

A v e . , M a k a t i C i t y

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

Virgilio S. Jacinto

Contact Person

(02) 8632-3143

Company Telephone Number

1 2

Month

3 1

Day

SEC Form 20-IS
(Preliminary Information Statement)

FORM TYPE

0 7

Month

0 9

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes



NOTICE OF 2021 ANNUAL STOCKHOLDERS' MEETING
July 09, 2021

The 2021 Annual Stockholders' Meeting of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** will be held on **July 09, 2021 (Friday) at 2:00 p.m.** Due to COVID-19 health concerns, the Company will not hold a physical meeting and will instead conduct the Meeting through remote communication.

The proceedings will be livestreamed at the Company's website www.topfrontier.com.ph. The Chairman will preside the Meeting at 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines.

The Agenda of the 2021 Annual Stockholders' Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 09, 2020
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Appointment of External Auditors
6. Election of the Board of Directors
7. Other Matters
8. Adjournment

The electronic copies of the Minutes of the Annual Stockholders' Meeting held on July 09, 2020, the Notice of the 2021 Annual Stockholders' Meeting, the Definitive Information Statement (together with the Management Report), sample ballot and proxy form, 2020 Annual Report (SEC Form 17-A), 1st Quarter 2021 Report (SEC Form 17-Q), the summary of the resolutions of the Board of Directors since July 09, 2020, and other pertinent documents for the 2021 Annual Stockholders' Meeting, are available at the Company's website and can be easily accessed through this link: www.topfrontier.com.ph. The aforementioned Company reports and other disclosures are likewise available in the Philippine Stock Exchange Electronic Disclosure Generation Technology (PSE Edge).

Stockholders can only attend the 2021 Annual Stockholders' Meeting by remote communication by following the procedure summarized below.

a. Stockholders who would like to view the livestream of the meeting by accessing the link provided in the Company website www.topfrontier.com.ph. There will be an audiovisual recording of the proceedings, for future reference.

b. Attendance of the stockholders of record as of **June 04, 2021** shall be counted, and their votes will be cast, through ballots submitted by the stockholders or their proxies. The deadline for the submission of ballots and proxies is on **June 25, 2021**. Ballots and proxies may be sent through email at ASM2021@topfrontier.com.ph or by mail to the SMC Stock Transfer Service Corporation office located at the 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines. Validation of ballots and proxies will be on **July 02, 2021** at 2:00 p.m. at the SMC Stock Transfer Service Corporation office located at the above-mentioned address.

For an individual, his/her ballot or proxy must be accompanied by a scanned copy of his/her valid government-issued identification card with photo for verification of identity. For a corporation, its ballot or proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to vote and/or represent the corporation in the meeting, where applicable. Ballots and proxies need not be notarized. For your convenience, a sample ballot/proxy is attached to the Definitive Information Statement. Hard copies of the ballots and proxies and notarized Secretary's Certificates are requested to be sent to the SMC Stock Transfer Service Corporation office located at the above-mentioned address within a reasonable time after the resumption of regular business operations.

c. The Company shall entertain questions and comments after the Presentation of the Annual Report. Questions and comments to the Board of Directors and/or Management may be sent in advance (or may be written in the ballot/proxy) by email to ASM2021@topfrontier.com.ph. Questions which were not answered during the meeting shall be forwarded to the Office of the Corporate Secretary for appropriate response.

d. The requirements and procedure for the nomination for election to the Board, the pre-screening and evaluation of the qualifications of the nominees, and the voting procedure for all items in the Agenda (including the election of the members of the Board), are set out in the Definitive Information Statement.

e. Stockholders whose shares are lodged with brokers are requested to directly contact their respective brokers for guidance on their participation in the 2021 Annual Stockholders' Meeting.

Should you have questions or requests for clarification on the procedure for the 2021 Annual Stockholders' Meeting, please email them to ASM2021@topfrontier.com.ph.



Virgilio S. Jacinto
Corporate Secretary and
Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

[] Preliminary Information Statement

[] Definitive Information Statement

2. Name of Registrant as specified in its charter **Top Frontier Investment Holdings, Inc.**

3. Province, country or other jurisdiction of incorporation or organization **Philippines**

4. SEC Identification Number **CS200803939**

5. BIR Tax Identification Number **006-990-128**

6. **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Ave., Makati City** **1200**
Address of principal office Postal Code

7. Registrant's telephone number, including area code **(02) 8632-3481**

8. **July 09, 2021 (Friday) at 2:00 p.m., via remote communication (livestreaming)**
The Chairman to preside the meeting at No. 40 San Miguel Avenue, Mandaluyong City
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders **June 09, 2021**

10. Name of Person Filing the Statement: **Top Frontier Investment Holdings, Inc.**
Address: **5th Floor, ENZO Building,
No. 399 Sen. Gil J. Puyat Avenue,
Makati City 1200**
Telephone No.: **(02) 8632-3481**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding (as of December 31, 2020)
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Common Shares	332,886,167*
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**Net of the 157,310,033 common shares held in Treasury*

Total Liabilities	P1,338,424 million
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12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [] No []

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

Philippine Stock Exchange, Inc. – Common Shares

INFORMATION STATEMENT

GENERAL INFORMATION

Date, time and place of meeting of security holders.

The 2021 Annual Stockholders' Meeting of **Top Frontier Investment Holdings, Inc.** (the "Company", "Top Frontier" or the "Parent Company") will be held on **July 09, 2021 (Friday)** at **2:00 p.m.** Due to COVID-19 health concerns, the Company will not hold a physical meeting and will instead conduct the Meeting through remote communication.

The proceedings for the 2021 Annual Stockholders' Meeting will be livestreamed at the Company's website www.topfrontier.com.ph. The Chairman will preside the Meeting at 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines.

Attendance of the stockholders of record as of **June 04, 2021** shall be counted, and their votes will be cast, through ballots submitted by the stockholders or their proxies. The deadline for the submission of ballots and proxies is on **June 25, 2021**. Ballots and proxies may be sent through email at ASM2021@topfrontier.com.ph or by mail to the SMC Stock Transfer Service Corporation office located at the 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines. Validation of ballots and proxies will be on **July 02, 2021** at 2:00 p.m. at the SMC Stock Transfer Service Corporation office located at the above-mentioned address.

For an individual, his/her ballot or proxy must be accompanied by a scanned copy of his/her valid government-issued identification card with photo for verification of identity. For a corporation, its ballot or proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to vote and/or represent the corporation in the meeting, where applicable. Ballots and proxies need not be notarized. For your convenience, a sample ballot/proxy is attached to the Definitive Information Statement. Hard copies of the ballots and proxies and notarized Secretary's Certificates are requested to be sent to the SMC Stock Transfer Service Corporation office located at the above-mentioned address within a reasonable time after the resumption of regular business operations.

The Company shall entertain questions and comments after the Presentation of the Annual Report. Questions and comments to the Board of Directors and/or Management may be sent in advance (or may be written in the ballot/proxy) by email to ASM2021@topfrontier.com.ph. Questions which were not answered during the meeting shall be forwarded to the Office of the Corporate Secretary for the appropriate response.

Questions or requests for clarification on the procedure for the 2021 Annual Stockholders' Meeting may be sent to ASM2021@topfrontier.com.ph.

The complete mailing address of the principal office of the Company is **5th Floor, ENZO Building, No. 399 Sen. Gil J. Puyat Avenue, Makati City, Metro Manila, Philippines.**

This Information Statement shall be first to be sent to the stockholders of record approximately on **June 09, 2021**.

THE COMPANY IS NOT SOLICITING ANY PROXIES FROM ITS STOCKHOLDERS.

YOU ARE NOT REQUIRED TO SEND US A PROXY.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (i) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (ii) attending the meeting and voting in person or *in absentia*, in accordance with the procedure set out by the Company herein. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of the Revised Corporation Code of the Philippines (the “Revised Corporation Code”), stockholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the date prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action, namely: (i) any amendment to the articles of incorporation that has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (ii) sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code; (iii) merger or consolidation; and (iv) investment of corporate funds in another corporation or business or for any other purpose other than the primary purpose for which the corporation was organized, as provided under Section 80 of the Revised Corporation Code.

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided under the aforementioned pertinent provisions of Revised Corporation Code.

Interest of Certain Persons in Matters to be Acted Upon

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

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

RATIONALE AND BRIEF DISCUSSION OF THE AGENDA ITEMS

1. Certification of Notice and Quorum

a. Call to Order

The Chairman of the Board of Directors (or the Chairman of the meeting, as the case may be) (the “Chairman”) will call the meeting to order.

b. Notice and Quorum

The Corporate Secretary (or the Secretary of the meeting, as the case may be) (the “Secretary”) will certify the dates of publication (in print and online format) of the Notice of the 2021 Annual Stockholders’ Meeting in two (2) newspapers of general circulation, in compliance with SEC Notice dated March 16, 2021.

The Secretary will likewise certify the presence of a quorum. Under the Company’s By-laws, the holders of a majority of the issued and outstanding capital stock of the Company entitled to vote shall, if present in person or by proxy, constitute a quorum for the transaction of business.

c. Voting and Voting Procedure

A stockholder may vote the number of shares held in his/her/its name in the Company's stock and transfer books as of June 04, 2021. Holders of common shares have the right to vote on all matters requiring stockholders' approval, and are entitled to vote at the meeting by submission of the ballots or proxies in accordance with the procedure set out herein. The voting and voting procedure are detailed in pages 8 and 38 of this Information Statement.

2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 09, 2020

The stockholders will be requested to approve the Minutes of the Annual Stockholders' Meeting held on July 09, 2020 (the "2020 Annual Stockholders' Meeting"). Please refer to page 37 of this Information Statement for the contents of the Minutes of the 2020 Annual Stockholders' Meeting.

3. Presentation of the Annual Report

- a. The Management of the Company will deliver the report on the performance of the Company for 2020 and present for approval of the Annual Report.
- b. The Secretary will advise the stockholders of the holding of an open forum after the presentation of the Annual Report. Stockholders may raise their questions and/or comments prior to meeting by email to ASM2021@topfrontier.com.ph. Questions and comments may also be written in the space provided in the the ballot or proxy form submitted to the Company.
- c. Duly authorized representatives of R. G. Manabat & Co., the external auditors for 2020, will be present at the 2021 Annual Stockholders' Meeting to respond to appropriate questions concerning the 2020 Audited Financial Statements of the Company.
- d. After the open forum, the stockholders will then be requested to approve the Annual Report.

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

The stockholders will be requested to ratify all acts of the Board of Directors and Management since the 2020 Annual Stockholders' Meeting. The acts and proceedings of the Board of Directors and corporate officers since the 2020 Annual Stockholders' Meeting, as reflected in the minutes of meetings, are set out in pages 37-38 this Information Statement. The acts of Management and corporate officers were taken in furtherance of the conduct of the business of the Company and in the implementation of the matters approved by the Board of Directors. The summary of the resolutions of the Board of Directors since July 09, 2020, and other pertinent documents, are available at the Company's website at www.topfrontier.com.ph. The relevant disclosures relating thereto submitted to the SEC and the Philippine Stock Exchange, Inc. ("PSE") are posted on the Company's website www.topfrontier.com.ph and are likewise available in the PSE Edge.

5. Appointment of External Auditors

Pursuant to the Amended Manual of Corporate Governance of the Company, the appointment of the external auditor shall be recommended by the Audit and Risk Oversight Committee, approved by Board, and ratified by the shareholders. The Audit and Risk Oversight Committee and the Board of Directors shall endorse, for shareholders' approval and ratification, the re-appointment of R. G. Manabat & Co. as the external auditor of the Company for 2021. The relevant background and description on the extent of the audit services, tax advisory and other related services rendered by the external auditor, including their fees, are provided in page 34 of this Information Statement.

The appointment, reappointment, and removal of the External Auditor shall be recommended by the Audit and Risk Oversight Committee and approved by Board and ratified by the shareholders;

6. Election of the Board of Directors for the Ensuing Term

Pursuant to the Company's By-laws, the nominations for the election of all directors by the stockholders were submitted in writing to the Board of Directors through the Corporate Secretary. The Corporate Governance Committee has pre-screened and evaluated the qualifications of the nominees in accordance with the Amended Manual on Corporate Governance of the Company in its meeting held in May 6, 2021.

The Board of Directors during its regular meeting held on May 6, 2021 has determined that all the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

The seven (7) nominees will be submitted for election to the Board of Directors by the stockholders at the 2021 Annual Stockholders' Meeting. The profiles of the nominees, as well as the certification of their qualifications, are provided in pages 11 to 16 of this Information Statement.

7. Other Matters

The Chairman will inquire whether there are other relevant matters and concerns to be discussed. The Chairman shall accordingly respond to other matters that may be raised by the stockholders.

8. Adjournment

Upon determination that there are no other relevant matters to be discussed, the meeting will be adjourned on motion duly made and seconded.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of April 30, 2021, the Company has the following outstanding shares:

<u>Title of Class</u>	<u>No. of Shares Outstanding</u>
Common Shares	332,886,167
Preferred Shares	<u>1,904,540</u>
Total	334,790,707

As of April 30, 2021, the following is the breakdown of the foreign and Filipino ownership of the shares of stock of the Company:

Share Class	Number of Foreign-owned Shares	% of Foreign Ownership	Number of Filipino-owned Shares	% of Filipino Ownership	Total Shares Outstanding
Common	52,871,256	15.88%	280,014,911	84.12%	332,886,167
Preferred	-	-	1,904,540	100%	1,904,540
	52,871,256	15.79%	281,919,451	84.21%	334,790,707

The record date with respect to the 2021 Annual Stockholders' Meeting is **June 04, 2021**. Only stockholders of record at the close of business on **June 04, 2021** will be entitled to vote at the meeting.

Holders of common shares have the right to vote on all matters requiring stockholders' approval.

Holders of the preferred shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code, namely: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution. None of the foregoing matters forms part of the Agenda of the 2021 Annual Stockholders' Meeting.

Every stockholder entitled to vote shall be entitled to one (1) vote, in person, *in absentia*, or by proxy, for each share of stock registered in his/her/its name in the books of the Company, for each matter presented for the approval of the stockholders (except for election of directors, which is set out in the immediately succeeding paragraph).

With respect to the election of directors, in accordance with Section 23 of the Revised Corporation Code, a stockholder may vote the number of common shares held in his/her/its name in the Company's stock and transfer book as of **June 04, 2021**, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of his/her/its common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder for the election of directors of the Company is computed as follows: **number of common shares held on record as of record date multiplied by seven (7) directors**.

Beneficial owners of more than five percent (5%) of the Company's voting securities (both common and preferred shares) as of April 30, 2021 are as follows:

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% of Total Outstanding Common Shares
Common	Iñigo U. Zobel (Chairman of the Board)	Iñigo U. Zobel	Filipino	199,601,517	59.96%
	Aurora T. Calderon (Director and Treasurer)	Nominee-director of Mr. Zobel in the Board	Filipino	100	
				Total: 199,601,617	

Title of Class	Name of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held by the Beneficial Owners (includes Common Shares held by their nominees)	% of Total Outstanding Common Shares
Common	Master Year Limited Ramon S. Ang (President and CEO) Ferdinand K. Constantino (Director)	Master Year Limited (MYL) Sole director / shareholder of MYL and Nominee-director of MYL in the Board Nominee-director of MYL in the Board	Caymanian Filipino Filipino	49,799,800 100 100 Total: 49,800,000	14.96 %
Common	Privado Holdings, Corp.	Ramon S. Ang, as 100% beneficial owner of Privado Holdings, Corp.	Filipino	36,814,051 44,500 [in PCD Nominee Corporation (Filipino)] Total: 36,858,551	11.07%
Common	PCD Nominee Corporation (Filipino)	Various individual/entities	Filipino	26,027,568 [inclusive of the 44,500 shares of Privado Holdings, Corp.]	7.82%

As regards security ownership of management, the table below sets out the details of the voting securities in the name of the directors, executive officers, and nominees for election as directors, of the Company as of May 21, 2021:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Position	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% of Total Outstanding Common Shares
Common	Iñigo U. Zobel	Chairman of the Board	Iñigo U. Zobel	Filipino	199,601,517	59.96%
Common	Aurora T. Calderon	Director and Treasurer	Iñigo U. Zobel; Nominee-director	Filipino	100	0%
			Aurora T. Calderon	Filipino	2,260	0%
Common	Ramon S. Ang	President and CEO	MYL; Nominee-director	MYL - Caymanian	100	0%
			Ramon S. Ang	Filipino	75,787	0.02%
Common	Ferdinand K. Constantino	Director	MYL; Nominee-director	MYL - Caymanian	100	0%
			Ferdinand K. Constantino	Filipino	14,750	0%

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Position	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Total No. of Shares	% of Total Outstanding Common Shares
Common	Consuelo M. Ynares-Santiago	Independent Director	Consuelo M. Ynares-Santiago	Filipino	100	0%
Common	Minita V. Chico-Nazario	Independent Director	Minita V. Chico-Nazario	Filipino	100	0%
Common	Teresita J. Leonardo-De Castro	Independent Director	Teresita J. Leonardo-De Castro	Filipino	100	0%
Common	John Paul L. Ang	Incoming Director	John Paul L. Ang	Filipino	100	0%
Common	Bella O. Navarra	Chief Finance Officer	Bella O. Navarra	Filipino	10,260	0%
Common	Virgilio S. Jacinto	Corporate Secretary and Compliance Officer	Virgilio S. Jacinto	Filipino	2,562	0%
Common	Irene M. Cipriano	Assistant Corporate Secretary	Irene M. Cipriano	Filipino	1,000	0%
Common	Ma. Rosario B. Balanza	Investment Relations Officer and Data Protection Officer	Ma. Rosario B. Balanza	Filipino	1,307	0%

The aggregate number of shares owned of record by the directors, key officers, and nominees for election as directors of the Company as a group as of May 21, 2021 is 199,710,143 common shares, which is approximately 59.65% of the total outstanding shares of the Company.

Voting Trust

None of the stockholders holding more than five percent (5%) of the voting securities of the Company are under a voting trust or similar agreement.

Changes in Control

The Company is not aware of any change of control or arrangements that may result in a change in control of the Company.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The overall management and supervision of Top Frontier is undertaken by the Board of Directors. The Board is composed of seven (7) members of the Board. Pursuant to Section 2, Article III of the Company's By-laws, the directors are elected at each regular stockholders' meeting by

stockholders entitled to vote. The term of a director is one (1) year from date of election and until their successors are elected and qualified.

The incumbent members of the Board of Directors of Company, are as follows:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	64	Filipino	Chairman	2008
Ramon S. Ang	67	Filipino	Director	2010
Ferdinand K. Constantino	69	Filipino	Director	2010
Aurora T. Calderon	66	Filipino	Director	2013
Consuelo M. Ynares-Santiago	81	Filipino	Independent Director	2013
Minita V. Chico-Nazario	81	Filipino	Independent Director	2014
Teresita J. Leonardo-De Castro	72	Filipino	Independent Director	2019

**For the 2021 Annual Stockholders' Meeting, the following will be nominated as directors of the Company: Iñigo U. Zobel, Ramon S. Ang, John Paul L. Ang (41, Filipino), Aurora T. Calderon, Consuelo M. Ynares-Santiago (Independent Director), Minita V. Chico-Nazario (Independent Director) and Teresita J. Leonardo-De Castro (Independent Director).*

The following are the incumbent executive officers of Company:

Name	Age	Citizenship	Position	Year Position was Assumed
Iñigo U. Zobel	64	Filipino	Chairman of the Board	2008
Ramon S. Ang	67	Filipino	President and Chief Executive Officer	2013
Aurora T. Calderon	66	Filipino	Treasurer	2010
Bella O. Navarra	60	Filipino	Chief Finance Officer	2013
Virgilio S. Jacinto	64	Filipino	Corporate Secretary and Compliance Officer	2010 2013
Irene M. Cipriano	46	Filipino	Assistant Corporate Secretary	2013
Maria Rosario B. Balanza	59	Filipino	Investment Relations Officer and Data Protection Officer	2014 2017
Ramon R. Bantigue	59	Filipino	Internal Audit Group Head	2017

The following is the brief description of the academic qualifications and business and professional experience of each of the incumbent directors, the nominees for election to the Board, and executive officers of the Company over the past five (5) years.

Iñigo U. Zobel

Mr. Zobel is the Chairman of Top Frontier (since 2008). He is also the Chairman and President of E. Zobel, Inc. (since 1983), IZ Investment Holdings, Inc. (since 2013) and Zygnet Prime Holdings Inc. (since 2015); Director of San Miguel Corporation (since 2009); Chairman (2015-2016), Vice Chairman (since 2016) and President (2015-2017) of Manila North Harbour Port, Inc.; and a Director of E. Zobel Foundation, Inc., Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly an Independent Director of San Miguel Corporation (1999-2009), San Miguel Brewery Inc. (2007-2010), San Miguel Pure Foods Company, Inc. (2006-2009), San Miguel Properties, Inc. (2009-2010), and Ginebra San Miguel, Inc. (2004-2010); President and Chief Operating Officer of Air Philippines Corporation (2012-2014); and Director of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014). He attended Santa Barbara College, California, U.S.A.

Ramon S. Ang

Mr. Ang is the Director (since 2010) and President and Chief Executive Officer (since 2013) of Top Frontier. He was a member of the Corporate Governance Committee, and the Chairman of the Executive Compensation Committee of Top Frontier (2013-2017). Mr. Ang is the Vice Chairman (since 1999),

President, and Chief Operating Officer of San Miguel Corporation (since 2002); Chairman and Chief Executive Officer (since 2010) and President and Chief Operating Officer (since 2017) of SMC Global Power Holdings Corp.; Chairman of San Miguel Brewery Inc. (since 2007), San Miguel Brewery Hong Kong Limited (since 2005), Sea Refinery Corporation (since 2011), San Miguel Foods, Inc. (since 2006), San Miguel Yamamura Packaging Corporation (since 2006), Anchor Insurance Brokerage Corporation (since 2001), Clariden Holdings, Inc. (since 2012) and Manila North Harbour Port, Inc. (since 2016); Vice Chairman (since 2010), Director (since 2000) and President (since 2017) of Ginebra San Miguel, Inc.; Vice Chairman (since 2011), Director (since 2001) and President and Chief Executive Officer (since 2018) of San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.); President and Chief Executive Officer of Petron Corporation (since 2015), and Integrated Geo Solutions, Inc. (since 2009); President and Chief Executive Officer of Northern Cement Corporation (since 2012); Chairman (since 2002) and President (since 2010) of San Miguel Properties, Inc.; Chairman, President and Chief Executive Officer of Far East Cement Corporation (since 2016); Chairman and President of San Miguel Holdings Corp. (since 2010) and San Miguel Equity Investments Inc. (since 2011); and Chairman of Philippine Diamond Hotel & Resort, Inc. (since 2004). He is also the sole director and shareholder of Master Year Limited (since 2012) and the Chairman of Privado Holdings, Corp (since 2010). He was formerly the Chairman of Liberty Telecoms Holdings Inc. (2008-2016); President and Chief Operating Officer of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014); Vice Chairman and Director of Manila Electric Company (2009-2014); and Director of Air Philippines Corporation (2012-2014). Mr. Ang holds directorships in various subsidiaries of San Miguel Corporation. He holds a degree in B.S. Mechanical Engineering from the Far Eastern University.

Ferdinand K. Constantino

Mr. Constantino is a Director of Top Frontier (since 2010). He is a member of the Audit and Risk Oversight Committee, Related Party Transaction Committee (since 2017), and Corporate Governance Committee (since 2013). He was the Chairman of the Nomination and Hearing Committee and a member of the Audit Committee (2013-2017). He is also the Senior Vice President, Chief Finance Officer, Treasurer (since 2001) and Director (2010-2018) of San Miguel Corporation; President of Anchor Insurance Brokerage Corporation (since 2002); Vice Chairman of SMC Global Power Holdings Corp. (since 2011); a Director and Treasurer of San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.) (since 2018); Director of San Miguel Brewery Inc. (since 2007), San Miguel Yamamura Packaging Corporation (since 2002), SMC Stock Transfer Service Corporation (since 1993 and Chairman since 2010), San Miguel Holdings Corp. (since 2001), and Clariden Holdings, Inc. (since 2012); and a Director and Treasurer of San Miguel Equity Investments, Inc. (since 2011). Mr. Constantino previously served as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009), San Miguel Properties, Inc. (2001-2009), Bank of Commerce (2008-2010), Ginebra San Miguel, Inc. (2008-2010 and 2012-2015), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014); and Chief Finance Officer of Manila Electric Company (2009). He holds directorships in various subsidiaries of San Miguel Corporation. He holds a degree in A.B. Economics from the University of the Philippines and completed academic requirements for an M.A. Economics degree.

Aurora T. Calderon

Ms. Calderon is a Director of Top Frontier (since 2013), the Treasurer (since 2010) and a member of the Audit and Risk Oversight Committee, and Related Party Transaction Committee (since 2017). She was a member of the Audit Committee and Executive Compensation Committee (2013-2017). She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of San Miguel Corporation (since 2011); a Director of San Miguel Corporation (since 2014), Petron Corporation (since 2010), Petron Marketing Corporation (since 2010), Petron Freeport Corporation (since 2010), Sea Refinery Corporation (since 2010), New Ventures Realty Corporation (since 2010), Las Lucas Construction and Development Corp. (since 2010), Thai San Miguel Liquor Co. (since 2008), SMC Global Power Holdings Corp. (since 2010), San Miguel Equity Investments Inc. (since 2011), and Clariden Holdings, Inc. (since 2012). She was previously a consultant of San Miguel Corporation

reporting directly to the President and Chief Operating Officer (1998-2010) and formerly a Director of Manila Electric Company (2009), PAL Holdings, Inc. (2012-2014), Philippine Airlines, Inc. (2012-2014) and Air Philippines Corporation (2012-2014). Ms. Calderon holds directorships in various subsidiaries of San Miguel Corporation. She graduated magna cum laude from the University of the East with a degree in B.S. Business Administration, Major in Accountancy. Ms. Calderon is a Certified Public Accountant.

Consuelo M. Ynares-Santiago

Justice Santiago is an Independent Director of Top Frontier (since 2013), the Chairperson of the Corporate Governance Committee (since 2013) and of the Related Party Transaction Committee (since 2017), and a member of the Audit and Risk Oversight Committee (since 2017). She was a member of the Audit Committee and the Executive Compensation Committee (2013-2017). She is also an Independent Director of SMC Global Power Holdings Corp. (since 2011), Anchor Insurance Brokerage Corporation (since 2012), South Luzon Tollway Corporation (since 2015) and Phoenix Petroleum Phil. Inc. (since 2013). She was formerly an Associate Justice of the Supreme Court (1999-2009), an Associate Justice of the Court of Appeals (1990-1999), and a Regional Trial Court Judge of Makati City (1986-1990). Justice Santiago obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

Minita V. Chico-Nazario

Justice Nazario is an Independent Director of Top Frontier (since 2014), the Chairperson of the Audit and Risk Oversight Committee (since 2017), a member of the Related Party Transaction Committee (since 2017) and Corporate Governance Committee (since 2017), and the Lead Independent Director (since 2018). She was the Chairperson of the Audit Committee and a member of the Nomination and Hearing Committee (2014-2017). She is also an Independent Director of San Miguel Properties, Inc. (since 2012), Ginebra San Miguel Inc. (since 2012), and San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.) (since 2015). She is also currently the Dean of the College of Law of the University of Perpetual Help System DALTA in Las Pinas City (since 2011), Chairperson of Philippine Grain International Corp (since 2010), a Director of Mariveles Grains Corp. (since 2012), and a Legal Consultant of the United Coconut Planters Bank (since 2014). Justice Nazario is formerly an Associate Justice of the Supreme Court (2004-2009), the Presiding Justice of the Sandiganbayan (2003-2004), and the Chairman of the Board (2010) and Director (2010-2011) of the PNOC Exploration Corporation. Justice Nazario obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

Teresita J. Leonardo-De Castro

Justice De Castro has been nominated for election as an Independent Director of Top Frontier at the Annual Stockholders' Meeting. Justice De Castro served as Chief Justice of the Supreme Court of the Philippines (2018), Associate Justice of the Supreme Court of the Philippines (2007-2008), Presiding Justice of the Sandiganbayan (2004-2007), and Associate Justice of the Sandiganbayan (1997-2004). Justice De Castro obtained her Bachelor of Laws degree from the University of the Philippines, College of Law.

John Paul L. Ang

Mr. Ang is the President and Chief Executive Officer of Eagle Cement Corporation ("Eagle Cement") since 2008 and South Western Cement Corporation since 2017. He is also currently a Director of San Miguel Corporation and Petron Corporation. He is likewise the Chairman of the Executive Committee of Eagle Cement. He graduated in 2002 at the Ateneo de Manila University with the degree in Bachelor of Arts in Interdisciplinary Studies. On December 18, 2020, he attended a corporate governance training seminar conducted by the Center for Global Best Practices.

Bella O. Navarra

Ms. Navarra is the Chief Finance Officer of Top Frontier (since 2013) and the Vice President, Comptrollership of San Miguel Corporation (since 2000). She is a Director and the Treasurer of Clariden Holdings, Inc. (since 2012) and various subsidiaries of San Miguel Corporation; and a Director of San Miguel Holdings Corp. (since 2007), San Miguel Equity Investments Inc. (since 2011), and SMC Stock Transfer Service Corporation (since 2001). She holds directorships in various subsidiaries of San Miguel Corporation. She is a Certified Public Accountant and holds a degree in B.S. in Business Administration, Major in Accounting from the University of the East.

Virgilio S. Jacinto

Atty. Jacinto is the Corporate Secretary of Top Frontier (since 2010), Compliance Officer (since 2013), and a member of the Corporate Governance Committee (since 2013). He is the Corporate Secretary, Senior Vice-President, General Counsel, and Compliance Officer of San Miguel Corporation (since 2010). He is also the Corporate Secretary and Compliance Officer of Ginebra San Miguel, Inc. and a Director of Petron Corporation (since 2010); President of SMC Stock Transfer Service Corporation (since 2011); a Director and Corporate Secretary of SMC Global Power Holdings Corp. (since 2010); and Corporate Secretary of San Miguel Holdings Corp. (since 2010) and various subsidiaries of San Miguel Corporation. He is also an Associate Professor at the University of the Philippines, College of Law (since 1993). Atty. Jacinto was formerly the Vice President and First Deputy General Counsel of San Miguel Corporation (2006-2010). He holds directorships in various subsidiaries of San Miguel Corporation. Atty. Jacinto is the class salutatorian and graduated cum laude from the College of Law of the University of the Philippines, and placed 6th in the 1981 Bar Examinations. He also holds a Master of Laws degree from the Harvard Law School.

Irene M. Cipriano

Atty. Cipriano is the Assistant Corporate Secretary of Top Frontier (since 2013) and an Assistant Vice President and Associate General Counsel of San Miguel Corporation. She is also the Corporate Secretary of San Miguel Equity Investments Inc. (since 2011), the Assistant Corporate Secretary of SMC Global Power Holdings Corp. (since 2010), and of various subsidiaries of San Miguel Corporation. Atty. Cipriano was formerly the Assistant Corporate Secretary of PAL Holdings, Inc. (2012-2014) and Philippine Airlines, Inc. (2012-2014). She is a Certified Public Accountant and holds a degree in B.S. Accountancy from De La Salle University. Atty. Cipriano holds a degree in Bachelor of Laws from the San Beda College of Law.

Maria Rosario B. Balanza

Ms. Balanza is the Investment Relations Officer of Top Frontier (since 2014) and serves as its Data Protection Officer (since 2017). She is also the Assistant Vice President for the Planning and Research Services Department, Corporate Finance of San Miguel Corporation (since 2007). She was formerly the Assistant Vice President for Research and Information Management, Corporate Planning of San Miguel Corporation (2004–2007). Ms. Balanza holds a degree in A.B. Economics from the University of the Philippines and has completed the Post Graduate Program in Development Economics from the University of the Philippines. She obtained her Master of Management from the Australian National University.

Ramon R. Bantigue

Mr. Bantigue is the Internal Audit Group Head of Top Frontier (since 2017). He is also a Vice President and Head of the San Miguel Corporation Group Audit (since 2007). Mr. Bantigue is Certified Internal Auditor. He is Certified Public Accountant and holds a degree in Bachelor of Commerce, Major in Accountancy from the University of Sto. Tomas. Mr. Bantigue completed the Management Development Program at the Asian Institute of Management.

Term of Office

Pursuant to the Company's By-laws, the directors are elected at each annual stockholders meeting by stockholders entitled to vote. Each director holds office until the next annual election and his/her successor is duly elected, unless he resigns, dies or is removed prior to such election.

The nominees for election to the Board of Directors on July 09, 2021 are as follows:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. John Paul L. Ang
4. Aurora T. Calderon
5. Consuelo M. Ynares-Santiago – Independent Director
6. Minita V. Chico-Nazario – Independent Director
7. Teresita J. Leonardo-De Castro – Independent Director

Independent Directors

The incumbent independent directors of the Company are Consuelo M. Ynares-Santiago, Minita V. Chico-Nazario, and Teresita J. Leonardo-De Castro.

The nominees for election as independent directors of the Board of Directors on July 09, 2021 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Consuelo M. Ynares-Santiago	Iñigo U. Zobel	None
Minita V. Chico-Nazario	Iñigo U. Zobel	None
Teresita J. Leonardo-De Castro	Iñigo U. Zobel	None

The above-named nominees for independent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the Securities Regulation Code ("SRC"). The Certifications of the Independent Directors of the Company are attached hereto as **Annexes "A-1"**, **"A-2"**, and **"A-3"**, respectively, in accordance with SEC Memorandum Circular No. 5, Series of 2017.

In approving the nominations for independent directors, the Corporate Governance Committee took into consideration the guidelines and procedures on the nomination of independent directors prescribed in SRC Rule 38 and the Amended Manual on Corporate Governance of the Company.

The nominations for the election of all directors by the stockholders shall be submitted in writing to the Board of Directors through the Corporate Secretary on or before the date the Board of Directors may fix.

The nominations are forwarded to the Corporate Governance Committee which shall pre-screen the qualifications of the nominees and prepare a final list of nominees eligible for election. No other nominations are entertained after the final list of candidates is prepared.

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least one hundred (100) common shares registered in his/her name may be elected director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors. Additional qualifications required for regular and independent directors are set out in the Amended Manual on Corporate Governance of the Company.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws and the pertinent provisions of the Amended Manual on Corporate Governance of the Company, as determined and evaluated by the Corporate Governance Committee and reported to the Board of Directors during their respective meetings held on May 06, 2021.

Significant Employees

While all employees are expected to make a significant contribution to Top Frontier, there is no one particular employee, nor an executive officer, expected to make a significant contribution to the business of Top Frontier on his/her own.

Family Relationship

John Paul L. Ang, a nominee-director, is the son of Ramon S. Ang, the Company's President and Chief Executive Officer. Other than the foregoing, there are no family relationships up to the fourth civil degree either of consanguinity or affinity among any of the directors and executive officers.

Involvement in Certain Legal Proceedings

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

Certain Relationships and Related Transactions

See Note 33, Related Party Disclosures, of the Notes to the 2020 Audited Consolidated Financial Statements of the Company, hereto attached as **Annex "B-1"**.

No director is engaged in any self-dealing or related party transaction with the Company.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Executive Compensation

The Board may provide, in its discretion, an allowance or per diem to each member of the Board during each regular meeting of the Board, provided that the said director participates in the said meeting. Pursuant thereto, Top Frontier provides each director, who are not officers of San Miguel Corporation ("SMC"), with reasonable per diem of P20,000 and P10,000 for each Board and Committee meeting attended, respectively. Additionally, the By-Laws of Top Frontier provides that as compensation of the directors, the Board at its discretion shall receive and allocate yearly an amount of not more than 10% of the net income before income tax of Top Frontier during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

The By-Laws of Top Frontier further provides that the officers shall receive such remuneration as the Board may determine. A director shall not be precluded from serving Top Frontier in any other capacity as an officer, agent or otherwise, and receiving compensation therefor.

Compensation to executive officers currently comprising of the Chairman, the President and Chief Executive Officer, the Treasurer, the Chief Finance Officer, the Corporate Secretary and Compliance Officer, the Assistant Corporate Secretary, the Investment Relations Officer and Data Protection Officer, and the Internal Audit Group Head amounted to nil for the years ended 2020, 2019, and 2018.

There were no other compensation paid to the directors for the periods indicated.

Employment Contract between the Company and Executive Officers

There are no special employment contracts between Top Frontier and its named executive officers.

Warrants and Options Held by the Executive Officers and Directors

As of December 31, 2020, none of the directors and executive officers of Top Frontier hold any warrants or options in Top Frontier.

Other Arrangements

Except as described above, there are no other arrangements pursuant to which any of the directors and executive officers of Top Frontier were compensated, or is to be compensated, directly or indirectly since the incorporation of Top Frontier on March 11, 2008.

INDEPENDENT PUBLIC ACCOUNTANTS

The accounting firm of R.G. Manabat & Co. served as the Company's external auditors for the last twelve (12) fiscal years. The Board of Directors will again nominate R.G. Manabat & Co. as the Company's external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the 2021 Annual Stockholders' Meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire. R.G. Manabat & Co. (then known as Manabat Sanagustin & Co., CPAs) has been the Company's external auditors since 2009. In 2014, R.G. Manabat & Co. changed the signing partner assigned to the Company, in compliance with SRC Rule 68 (3) (b) (iv) in respect of the engagement of R.G. Manabat & Co.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

Top Frontier Investment Holdings, Inc. ("Top Frontier" or the "Parent Company") is a Philippine corporation organized on March 11, 2008 as a holding company. As of December 31, 2020, Top Frontier is the largest shareholder of San Miguel Corporation ("SMC") in which it holds 1,573,100,340 common shares, or 65.99% of SMC's total outstanding common stock. On August 30, 2013, Top Frontier acquired 100% of the outstanding common stock of Clariden Holdings, Inc. ("Clariden"), a holding company with interests in exploration, mining and development. Other than its ownership in SMC and Clariden, the Parent Company has no other operations as of December 31, 2020.

SAN MIGUEL CORPORATION

SMC, together with its subsidiaries (collectively referred to as the “SMC Group”), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales equivalent to approximately 4% of the Philippine gross domestic product in 2020.

Originally founded in 1890 as a single product brewery in the Philippines, SMC today owns market-leading businesses and investments in various sectors, including food and beverage, packaging, energy, fuel and oil, infrastructure, cement, property and banking services. SMC owns a portfolio of companies that is tightly interwoven into the economic fabric of the Philippines, benefiting from and contributing to the development and economic progress of the country. The common shares of SMC were listed on November 5, 1948 at the Manila Stock Exchange, now The Philippine Stock Exchange, Inc. (“PSE”).

Since adopting its business diversification program in 2007, SMC has channeled its resources into what it believes are attractive growth sectors, which are aligned with the development and growth of the Philippine economy. SMC believes that continuing this strategy and pursuing growth plans within each business will achieve a more diverse mix of sales and operating income, and better position for SMC to access capital, present different growth opportunities, and mitigate the impact of downturns and business cycles.

SMC, through its subsidiaries and affiliates, is the market leader in its businesses with 45,522 regular employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2020. SMC products include beer, spirits, non-alcoholic beverages (“NAB”), poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products, a full range of refined petroleum products and cement, most of which are market leaders in their respective markets. In addition, SMC contributes to the growth of downstream industries and sustains a network of hundreds of third-party suppliers.

Through the partnerships it has forged with major international companies, the SMC Group has gained access to the latest technologies and expertise, thereby enhancing its status as a world-class organization.

SMC has strategic partnerships with international companies, among them are Kirin Holdings Company, Limited (“Kirin”) for beer, Hormel Foods International Corporation (“Hormel”) for processed meats, Nihon Yamamura Glass Company, Ltd. (“NYG”), Fuso Machine & Mold Mfg. Co. Ltd. (“Fuso”) and Can Pack S.A. (“Can Pack”) for packaging products, and Korea Water Resources Corporation (“K-Water”) for its power business.

Businesses

Food and Beverage

San Miguel Food and Beverage, Inc. (“SMFB”) is a leading food and beverage company in the Philippines. The brands under which SMFB produce, market, and sell its products are among the most recognizable and top-of-mind brands in the industry and hold market-leading positions in their respective categories. Key brands in the SMFB portfolio include *San Miguel Pale Pilsen*, *San Mig Light* and *Red Horse* for beer, *Ginebra San Miguel* for gin, *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy*, for refrigerated prepared and processed meats and canned meats, *Star* and *Dari Crème* for margarine and *B-Meg* for animal feeds.

SMFB has three primary operating divisions - (i) beer and NAB, (ii) spirits, and (iii) food. The Beer and NAB Division and the Spirits Division comprise the beverage business (the “Beverage business”). SMFB operates its Beverage business through San Miguel Brewery Inc. and its subsidiaries (“SMB” or the “Beer and NAB Division”), and Ginebra San Miguel Inc. and its subsidiaries (“GSMI”

or the “Spirits Division”). The Food business (the “Food Division”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (“SMFI”), Magnolia Inc., (“Magnolia”) and The Purefoods-Hormel Company, Inc. (“Purefoods-Hormel”). SMFB serves the Philippine archipelago through an extensive distribution and dealer network and exports its products to almost 60 markets worldwide.

Beer and NAB Division

The Beer and NAB Division is the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets. Top beer brands in the Philippines include *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light*, and *Gold Eagle*. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 130 years which was first produced by *La Fabrica de Cerveza de San Miguel*. The Beer and NAB Division also produces NAB such as ready-to-drink tea, ready-to-drink juice and carbonates.

SMB markets its beer under the following brands: *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light*, *San Miguel Flavored Beer*, *San Miguel Super Dry*, *San Miguel Premium All-Malt*, *Cerveza Negra*, *San Mig Zero*, *San Mig Free* and *Gold Eagle*. SMB also exclusively distributes *Kirin Ichiban* in the Philippines.

SMB’s NAB business portfolio includes *Magnolia Healthtea* (ready-to-drink tea), *Magnolia Fruit Drink* (ready-to-drink juice), *San Mig Cola* (carbonates), and *Cali*, a sparkling malt-based non-alcoholic drink.

In 2018, SMB discontinued the production of *Magnolia Purewater* (bottled water) in plastic bottles in line with SMC’s initiative to reduce its environmental footprint and support a sustainable business model. In 2019, SMB launched *Agua Prima Still Water* in returnable glass bottles and *Agua Prima Sparkling Water* in returnable glass bottle and can formats which is included in the portfolio of the NAB business.

San Miguel Brewing International Limited and its subsidiaries (“SMBIL”) also offer the *San Miguel Pale Pilsen*, *San Mig Light*, *Red Horse* and *Cerveza Negra* brands in managed countries, which are also available in more than sixty (60) markets worldwide. In addition to the San Miguel brands, SMBIL’s portfolio also includes locally available brands: *Blue Ice* (Hong Kong), *Dragon* (South China), *WIN Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

Spirits Division

The Spirits Division is a leading spirits producer in the Philippines and the largest gin producer internationally by volume. It is the market leader in gin and Chinese wine in the Philippines. GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and other spirits. Ginebra traces its roots to a family-owned Spanish era distillery that introduced the *Ginebra San Miguel* brand in 1834. The distillery was then acquired by La Tondeña Incorporada in 1924, and thereafter by SMC in 1987 to form La Tondeña Distillers, Inc. In 2003, the company was renamed Ginebra San Miguel Inc. in honor of the pioneering gin brand.

GSMI has a diverse product portfolio that caters to the varied preference of the local market. Core brands *Ginebra San Miguel* and *Vino Kulafu*, the leading brands in the gin and Chinese wine categories, accounted for 94% of GSMI’s total revenues. The other products that complete the liquor business of GSMI comprise about 6% of its total revenues. These products are available nationwide while some are exclusively exported to select countries.

GSMI products are exported to markets with high concentration of Filipino communities such as the United Arab Emirates, Taiwan and Hong Kong as well as in Vietnam, Korea, India, Canada and the U.S. It also produces certain brands that are for export only, which includes *Ginebra San Miguel*

Premium Gin Black, Tondeña Manila Rum, and Añejo Dark Rum 5 years. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

With the onset of the COVID-19 pandemic in early March 2020, GSMI pivoted its production facilities to produce disinfecting 70% ethyl alcohol and donated over 1.3 million liters around the country. In the last quarter of 2020, GSMI commercially launched *San Miguel Ethyl Alcohol* to provide supply of disinfectant alcohol in the local market as well as help stabilize the price.

Food Division

The Food Division holds market-leading positions in many key food product categories in the Philippines and offers a broad range of high-quality food products and services to household, institutional and food service customers. The Food Division has some of the most recognizable brands in the Philippine food industry, including *Magnolia* for chicken, ice cream and dairy products, *Monterey* for fresh and marinated meats, *Purefoods* and *Purefoods Tender Juicy* for refrigerated processed meats, ready-to-eat cooked meats, canned meats and seafood lines, *Veega* for meat free, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *La Pacita* for biscuits, and *B-Meg* for animal feeds.

The Food Division has a diversified product portfolio that ranges from branded value-added refrigerated meats and canned meats, butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids and biscuits, flour mixes, and coffee and coffee-related products (collectively "Prepared and Packaged Food") to integrated feeds ("Animal Nutrition and Health") to poultry and fresh meats ("Protein") as well as flour milling, grain terminal handling, foodservice, franchising, and international operations ("Others").

The key operating segments, products, brands and services for each of the primary businesses of the Food Division are as follows:

- a) ***Prepared and Packaged Food*** - The major operating subsidiaries for the Prepared and Packaged Food segment are Purefoods-Hormel, Magnolia and San Miguel Super Coffeemix Co., Inc. ("SMSCCI") producing value-added refrigerated and canned meats, dairy, spreads and oils, biscuits, and coffee. Purefoods-Hormel is a 60:40 joint venture with Hormel Netherlands, B.V., which was entered into in 1998 that produces and markets value-added refrigerated processed meats and canned meat products. The joint venture agreement sets out the parties' agreement as shareholders of Purefoods-Hormel, including, among others, provisions on technical assistance and sharing of know-how, the use of trademarks, fundamental matters requiring shareholder or Board approval, exclusivity covenants, and restrictions on the transfer of Purefoods-Hormel shares.

Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, ready-to-heat meal, seafood lines and meat free products, which are sold under the brand names *Purefoods*, *Purefoods Tender Juicy*, *Star*, *Higante*, *Purefoods Beefies*, *Vida*, *Purefoods Nuggets* and *Veega*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads, tuna and ready-to-eat viands, are sold under the *Purefoods*, *Star*, *Ulam King* and *Delmar* brands.

The dairy, spreads and biscuits business, primarily operated through Magnolia Inc., manufactures and markets a variety of bread spreads, milk, ice cream, jelly-based snacks, salad aids, biscuits, flour mixes, and cooking oils. Bread spreads include butter, refrigerated and non-refrigerated margarine and cheese sold primarily under the *Magnolia*, *Dari Crème*, *Star*, and *Cheeze* brands. Dairy products include ready-to-drink milk, ice cream and all-purpose cream under the *Magnolia* brand, jelly-based snacks are under the *JellyYace* brand, biscuits under the *La Pacita* brand, while flour mixes and salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand. The margarine brands, *Star* and *Dari Crème*, established in 1931 and 1959 respectively, were acquired in the 1990s.

The coffee business under SMSCCI is a 70:30 joint venture between SMFB and a Singaporean partner, Jacobs Douwe Egberts RTL SCC SG Pte. Ltd., formerly Super Coffee Corporation Pte. Ltd. SMSCCI imports, packages, markets, and distributes coffee mixes and coffee-related products in the Philippines.

In February 2015, the Food Division entered the biscuits category through the acquisition of the *La Pacita* brand from Felicisimo Martinez & Co., Inc. *La Pacita* products include crackers and cookies in various formats, which are distributed in the Philippines and exported to other countries.

- b) ***Animal Nutrition and Health*** - The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines. The operating subsidiary for the Animal Nutrition and Health segment is SMFI. Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates, and specialty and customized feeds. These feeds are sold and marketed under various brands such as *B-Meg*, *B-Meg Premium*, *Integra*, *Expert*, *Dynamix*, *Essential*, *Pureblend*, *Bonanza*, *Jumbo*, and *Nutri Chunks*.
- c) ***Protein*** - SMFI is also the operating subsidiary for the business' Protein segment, which sells poultry and fresh meats products. The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia* brand, which includes fresh-chilled or frozen whole, cut-up and marinated products. A wide variety of fresh and easy-to-cook products are sold through *Magnolia Chicken Stations*. The poultry business also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors, and sells live chickens to dealers.

The fresh meats business breeds, grows and processes hogs and trades beef and pork products. Its operations include slaughtering live hogs and processing beef and pork carcasses into primal and sub-primal meat cuts. These specialty cuts and marinated products are sold in neighborhood meat shops under the well-recognized *Monterey* brand name.

- d) ***Others*** - Flour milling, premixes and baking ingredients, foodservice, franchising and international operations are categorized under Others. The bulk of this segment is accounted for by the flour milling business and grain terminal operation.

The flour milling segment operates under San Miguel Mills, Inc. ("SMMI"). SMMI owns Golden Bay Grain Terminal Corporation, which provides grain terminal, warehousing services, and grain handling services (e.g. unloading, storage, bagging, and outloading) to clients, and Golden Avenue Corp., which holds investment in real property.

The flour milling segment offers a variety of flour products that includes bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour, and flour premixes, such as *pancake* mix, *cake* mix, *brownie* mix, *pan de sal* mix, and *puto* (or rice cake) mix. The business pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten in the Philippines for breakfast. Flour products are sold under brand names which enjoy strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

The international operations of the Food Division are located in Indonesia and Vietnam. PT San Miguel Foods Indonesia ("PTSMFI", formerly PT Pure Foods Suba Indah) is a 75:25 joint venture with PT Hero Intiputra of Indonesia. San Miguel Foods Investment (BVI) Limited, which operates San Miguel Pure Foods (Vn) Co., Ltd. ("SMPFVN") in Vietnam, is a wholly-owned subsidiary of San Miguel Foods International, Limited. Both PTSMFI and SMPFVN are in the

business of production and marketing of processed meats which are sold under the *Farmhouse* and *Vida* brands in Indonesia and under the *Le Gourmet* brand in Vietnam.

The foodservice segment of the Food Division is handled by Great Food Solutions (“GFS”), a group under SMFI. GFS, which services institutional accounts such as hotels, restaurants, bakeshops, fast food, and pizza chains, was established in 2002 and is one of the largest foodservice providers in the Philippines. It markets and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour and coffee businesses. In turn, GFS receives a development fee from these businesses for selling their products to foodservice institutional clients.

The Food Division ventured into the franchising business to serve as contact points with consumers, a trial venue for new product ideas and a channel to introduce product applications for its products. The franchising business, also a group under SMFI, follows a convenience store model under the *Treats* brand, most of which are located in Petron gasoline stations. *Chick’n Juicy* is the newest addition to the Food Division’s franchising roster. Launched in February 2019, *Chick’n Juicy* gives its own take on the popular roast chicken, fried chicken, fried *isaw*, and hard-boiled eggs, with top quality meats using the *Magnolia* brand.

Packaging

The packaging business began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. Collectively called as the Packaging Group, the business is comprised of San Miguel Yamamura Packaging Corporation (“SMYPC”), San Miguel Yamamura Packaging International Limited (“SMYPIL”) and their respective subsidiaries which are both joint venture companies between SMC and NYG, one of the largest glass and plastic packaging corporations in Japan, SMC Yamamura Fuso Molds Corp. (“SYFMC”), the manufacturer of glass and plastics molds in the country, Can Asia, Inc. (“CAI”), a pioneer in the production of two-piece aluminum cans, Mindanao Corrugated Fireboard, Inc. (“Mincorr”), a paper corrugated carton manufacturer, and Wine Brothers Philippines Corp., involved in the sale and distribution of wine products.

The Packaging Group manages one of the largest packaging operations in the Philippines with diversified businesses producing glass, molds, metal and plastic closures, aluminum cans, plastic bottles, pallets and crates, flexibles, paper, and other packaging products that offers a total packaging solution. The Packaging Group also provides services such as beverage filling for Polyethylene Terephthalate (“PET”) bottles, aluminum cans, and glass bottles, pallet leasing, and logistics services. The Packaging Group is the major source of packaging requirements of the other business units of SMC. It also supplies its products to customers across the Asia-Pacific region, the United States, and Australasia, as well as to major multinational corporations in the Philippines, including Coca-Cola Beverages Philippines, Inc., Nestle Philippines, Inc., and Pepsi Cola Products Philippines, Inc.

The Packaging Group holds 19 international packaging companies, particularly, located in China (glass, plastic, and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags, and radiant/thermal liners), Australia (trading, wine closures and bottle caps, and wine filling services and distribution) and New Zealand (plastics and trading).

Aside from extending the reach of the packaging business overseas, these facilities also allow the Packaging Group to serve the packaging requirements of SMB breweries in China, Vietnam, Indonesia, and Thailand.

SMYPC has ownership of all of the domestic plants of the Packaging Group, except the corrugated carton plant Mincorr, which is 100% owned by SMC. Mincorr is being managed by SMYPC. SMYPIL’s subsidiaries are the Packaging Group’s international facilities.

- a) **Glass** - The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities, and one glass and PET mold plant in the Philippines serving the requirements of the beverage, food, pharmaceutical, chemical, personal care, and health care industries. The bulk of the glass bottle requirements served by this segment are for the beverage, pharmaceuticals and food industries. The Securities and Exchange Commission approved the application of the merger of San Miguel Yamamura Asia Corporation ("SMYAC"), a joint venture company of SMC and NYG, and SMYPC, effective as of March 1, 2020 in accordance with Clause 5.5 of the Plan of Merger. Accordingly, by operation of law, SMYAC ceased to exist and the facility is now known as SMY Glass Plant, the country's most technologically advanced glass manufacturing facility and the largest glass manufacturing facility in the Philippines.
- b) **Metal** - The metal business manufactures metal caps, crowns, resealable caps, and two-piece aluminum beverage cans for a range of industries that include beer, spirits, soft drinks, condiments, and food. CAI is the pioneering two-piece aluminum can plant in the Philippines for the beverage market. SMYPC formed CAI, a joint venture with Can Pack, for the modernization of the two-piece aluminum can manufacturing business. Utilizing the know-how and technologies of Can Pack Group on can manufacturing, CAI is now capable to produce aluminum cans and ends in three categories - regular (standard), sleek, and slim cans. With its aim to introduce various aluminum can-packaging formats to the growing market in the Philippines and the Asia Pacific region, the business has expanded its product line to offer 180 ml aluminum cans in 2018. To-date, CAI is capable of producing six can sizes.
- c) **Plastics** - The plastics business, the second largest business in Packaging Group, produces crates and pallets, poultry flooring, plastic bottles, PET preforms and bottles, plastic caps and handles to serve the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care, petroleum, and industrial applications industries.
- d) **Beverage Filling** - The beverage filling operations is capable of filling non-alcoholic beverages in PET and two-piece aluminum cans. The business also expanded its capability to include retort process to serve coffee, milk, and chocolate drinks and glass filling.
- e) **Paper** - The paper business produces corrugated cartons and partition boxes. It supplies the carton packaging needs of a broad range of manufacturing and agricultural industries.
- f) **Composites/Flexibles** - The composites/flexible packaging business manufactures flexible packaging, plastic films, industrial laminates, trademarked Envirotuff™ radiant barrier and woven bags. Customers for this segment include companies in the food, beverages, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor, and electronics.

On February 27, 2015, SMYPIL through its Australian subsidiary, SMYV Pty Ltd, completed the acquisition of the assets and business of Vinocor Worldwide Direct Pty. Ltd. ("Vinocor"). Vinocor is a market leader in the supply of corks and closures for wine bottles in Australia, with facilities and operations based in Adelaide, South Australia.

On September 1, 2016, SMYA through its new New Zealand subsidiary, SMYE Limited, acquired the assets and business of Endeavour Glass Packaging Limited (In Receivership), a trading company based in Auckland, New Zealand. Thereafter, in 2017, SMYE Limited was amalgamated (or merged) with Cospak Limited, the New Zealand subsidiary of SMYA, with the latter continuing as the amalgamated (or surviving) company.

In 2017, SMYA acquired all of the issued share capital of Portavin Holdings Pty Ltd., Barrosa Bottling Services Pty Ltd., and Best Bottlers Pty Ltd., through its subsidiaries SMYP Pty Ltd., SMYB Pty Ltd., and SMYBB Pty Ltd. These acquisitions strengthened SMYA's business in Australia and

expanded its product base to include wine filling services, serving the growing wine markets in the Australasia region and in China.

To augment growth of the wine filling business of SMYA, the Packaging Group established in 2018 Wine Brothers Australasia Pty Ltd in Australia and Wine Brothers Philippines Corporation in the Philippines. The business is involved in the sale and distribution of wine products in their respective countries.

Moreover, in 2018, SMYA through its subsidiary, SMYJ Pty Ltd., acquired the business assets of JMP Holdings Pty Ltd, a supplier of retail packaging products, transport packaging solutions, and other products and services based in Victoria, Australia.

Real Estate

Established in 1990 as the corporate real estate arm of SMC, San Miguel Properties Inc. (“SMPI”) is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.96% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC.

Moving forward, SMPI is creating more synergies with its business units and is looking at developing quality residential, commercial and industrial developments.

Cavite Projects

SMPI offers a diverse portfolio of mid-range homes in General Trias, Cavite, namely Bel Aldea, Maravilla, and Asian Leaf, offering townhouse units and single attached house-and-lots, with floor areas ranging from 41.75 to 132.00 square meters.

Wedge Woods

Wedge Woods is located west of Sta. Rosa, Laguna - in Silang, Cavite, offering prime lots on a rolling terrain, with a majestic view of Mount Makiling.

Bel Aldea

Bel Aldea, located in General Trias, Cavite, is a 17-hectare development, which serves the economic housing segment, offers smartly designed townhouse units, with an average floor area of 42 square meters.

Maravilla

Spanning 24 hectares, Maravilla is a mid-range residential community located at General Trias, Cavite, offering Spanish Mediterranean houses, which currently offers new house models to suit the changing needs of the market.

Asian Leaf

Asian Leaf is a seven-hectare premier residential community in the heart of General Trias, Cavite, composed of single attached house and lots, with floor areas ranging from 88.50 to 108.30 square meters. Fusing modern Asian architecture and vibrant landscaping, Asian Leaf is perfect for homeowners looking for a tranquil and ideal haven.

Metro Manila Projects

The first project of SMPI is the SMC Head Office Complex, now considered as a landmark, which has served as a catalyst in transforming the area now known as the Ortigas Business District.

SMPI has expanded its portfolio, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan City, One Dover View and Two Dover View in Mandaluyong City, and Emerald 88 in Pasig City, and ventured also in hospitality segment thru its Makati Diamond Residences (“MDR”) in Makati City.

Dover Hill

A 93-unit luxury townhouse development in Addition Hills, San Juan City that offers three to five-bedroom units ranging from 202 up to 355 square meters. A three-car parking area located directly below each unit ensures maximum convenience. Aside from its amenities like the swimming pool and playground, within the Dover Hill compound is Dover Club, a five-storey amenity building which includes a fully-equipped, state-of-the-art fitness gym, and a party venue with its own kitchen and dining area good for up to 30 guests.

One Dover View & Two Dover View

Both located along Lee St., Mandaluyong, One Dover View and Two Dover View are exclusive and premier condominium-townhouse projects, offering three and four bedrooms, with only 23 and eight units, respectively. Floor areas range from 222.80 to 327.10 square meters.

Emerald 88

Located along Dr. Sixto Avenue, Pasig City, Emerald 88 is a 14 three-level townhouse unit development, with generous floor areas ranging from 187.48 to 216.94 square meters. Each unit has two-car garage.

Makati Diamond Residences

MDR is a luxury serviced apartment with 410 spacious guest rooms ranging from 41 square meters up to as much as 204 square meters and has top-of-the-line amenities and health and wellness facilities. Conveniently located in Makati Central Business District, the location of MDR provides easy access to many multinational companies, shopping, dining and entertainment destinations.

Mariveles Economic Zone Project

A 500-hectare industrial park development under the flagship of E-Fare Investment Holdings, Inc., and registered under Authority of the Freeport Area of Bataan. The Mariveles Economic Zone Project intends to provide an attractive location for private investments, stimulate regional economic activity and generate employment opportunities.

Boracay Gateway Project

Situated in the municipalities of Nabas and Malay, Province of Aklan, Boracay Gateway Project is a soon to rise Tourism Development under the flagship of La Belle Plume Realty, Inc. It is a master-planned development with various hotels, state-of-the-art water themed park, retail, food and beverage and entertainment facilities.

The project’s Phase 1 is resting in a 205-hectare land just beside the Boracay Airport, and is envisioned to be a premiere, world-class destination boasting with a variety of water and non-water activities and attractions, immersive experiences, culture and arts.

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“Petron”), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the largest and only oil refining and marketing company in the Philippines and a leading player in Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day. Petron participates in the reseller (service station), industrial, lube, and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

Petron owns and manages the most extensive oil distribution infrastructure in the Philippines. Petron has more than 2,400 retail service stations and approximately 700 retail service stations in Malaysia as of December 31, 2020. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

Petron owns and operates a petroleum refining complex, with a capacity of 180,000 barrels per day located in Limay, Bataan Philippines. The refinery has its own piers and two off shore berthing facilities. In 2010, Petron started the upgrade of its refinery by undertaking the Petron Bataan Refinery Master Plan Phase-2 Upgrade (“RMP-2”) which started commercial operation on January 1, 2016. RMP-2 upgraded the Petron Bataan Refinery to a full conversion refining complex which further enhanced its operational efficiencies, converting its fuel oil production into higher value products - gasoline, diesel, jet fuel, and petrochemicals, making it comparable to highly complex refineries worldwide. Petron also owns a refinery in Malaysia with a capacity of 88,000 barrels per day and 10 product terminals, with presence in the airport segment through a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport.

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. (“SMC Global Power”), together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,697 MW of combined capacity as of December 31, 2020. SMC Global Power benefits from a diversified power portfolio, including natural gas, coal, renewable energy such as hydroelectric power and most recently, the battery energy storage systems (“BESS”). This portfolio includes:

- a) The power plants subject of the Independent Power Producer Administration (“IPPA”) Agreements with the Power Sector Assets and Liabilities Management Corp. (“PSALM”), specifically the 1000 MW Sual Coal Fired Power Plant in Sual, Pangasinan, the 1200 MW Ilijan Natural Gas Fired Combined Cycle Power Plant in Ilijan, Batangas, and the 345 MW San Roque Multipurpose Hydroelectric Power Plant in San Roque, Pangasinan, the output of which are being managed by San Miguel Energy Corporation (“SMEC”), South Premiere Power Corp. (“SPPC”), and Strategic Power Devt. Corp. (“SPDC”), respectively, all wholly-owned subsidiaries of SMC Global Power;
- b) The 218 MW Angat Hydroelectric Power Plant in Angat, Bulacan, owned by Angat Hydropower Corporation (“AHC”), whose outstanding capital stock is 60% owned by SMC Global Power through its wholly-owned subsidiary, PowerOne Ventures Energy Inc. (“PVEI”);
- c) The 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plant (together, comprising the “Masinloc Power Plant”), and the 10 MWh BESS project all located in Masinloc, Zambales, owned by Masinloc Power Partners Co. Ltd. (“MPPCL”), which was wholly acquired by SMC Global Power in March 2018. MPPCL also intends to construct and develop 1 x 350 MW coal-fired thermal power plant expansion with target completion date in 2024;

- d) The greenfield power plants owned and developed by SMC Global Power, namely the 4 x 150 MW Limay Coal-Fired Circulating Fluidized Bed Power Plant in Limay, Bataan, (the “Limay Greenfield Power Plant”) owned by its subsidiary, SMC Consolidated Power Corporation (“SCPC”) and the 2 x 150 MW Malita Coal-Fired Circulating Fluidized Bed Power Plant in Malita, Davao Occidental, (the “Davao Greenfield Power Plant”) owned by another subsidiary, San Miguel Consolidated Power Corporation (“SMCPC”). Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively. Units 1 and 2 of the Davao Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively; and
- e) The 15 MW Multi-Fuel Peaking Power Plant in Tagum City, Davao del Norte (“Tagum Peaking Power Plant”) acquired by SMC Global Power through its wholly owned subsidiary, Strategic Energy Development Inc. (“SEDI”), in February 2020 to provide back-up power to the Davao Greenfield Power Plant.

Based on the total installed generating capacities under the most recent Energy Regulatory Commission (“ERC”) Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 27% of the Luzon Grid and 8% of the Mindanao Grid, in each case, as of December 31, 2020.

SMC Global Power is also engaged in distribution and retail electricity services. Its wholly-owned subsidiary, Albay Power and Energy Corp. (“APEC”) operates and maintains Albay Electric Cooperative, Inc. (“ALECO”), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon by virtue of a concession agreement with ALECO. SMC Global Power was also issued retail electricity supplier licenses, through San Miguel Electric Corp. (“SMELC”), SCPC and MPPCL, which allow it to enter into contracts with contestable customers and expand its customer base.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCPC, SMELC, SEDI and MPPCL, sells power through offtake agreements directly to customers, including the Manila Electric Company (“Meralco”) and other distribution utilities, electric cooperatives and industrial customers, or through the Wholesale Electricity Spot Market (“WESM”).

SMC Global Power also owns (1) 89.54% interest in Mariveles Power Generation Corporation (“MPGC”), which is developing and constructing the 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan, (2) SMCGP Philippines Energy Storage Co. Ltd. (“SMCGP Philippines Energy”), whose 20 MWh BESS project located in Kabankalan, Negros Occidental, has attained substantial completion (including testing and commissioning with the National Grid Corporation of the Philippines) in December 2020, (3) Central Luzon Premiere Power Corp. (“CLPPC”), which is planning to develop and construct a new power plant using high efficiency low emission technologies located in Pagbilao, Quezon with planned installed capacity of 600 MW (“Pagbilao Greenfield Power Plant”), (4) Universal Power Solutions Inc. (“UPSI), which is developing up to 950 MWh BESS facilities across the Philippines and (5) Excellent Energy Resources Inc. (“EERI”), which is planning to construct an 1,313.1 MW natural gas combined cycle power plant in Barangays Ilijan and Dela Paz Proper, Batangas City (“Ilijan Expansion Plant”) as part of SMC Global Power’s diversification of its power portfolio to include liquefied natural gas.

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy Resources, Inc., Daguma Agro Minerals, Inc. and Sultan Energy Phils. Corp., also owns coal exploration, production, and development rights over approximately 17,000 hectares of land in Mindanao. While SMC Global Power does not intend to develop these sites in the near future, depending on prevailing global coal prices and the related logistical costs, it may consider eventually tapping these sites to serve as a significant additional source of coal fuel for its planned and existing greenfield coal-fired power plants.

Infrastructure

The infrastructure business, conducted through San Miguel Holdings Corp. (“SMHC”), consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Current operating toll roads include the South Luzon Expressway (“SLEX”), Skyway Stages 1, 2 and 3, the Southern Tagalog Arterial Road (“STAR”), Tarlac-Pangasinan-La Union Toll Expressway (“TPLEX”), and NAIA Expressway (“NAIAx”) tollways. Ongoing projects include the Alabang South Skyway Extension, SLEX TR4, Mass Rail Transit Line 7 (MRT-7), Skyway Stage 4 and Manila International Airport. It also operates and is currently expanding the Boracay Airport and has investments in Manila North Harbour Port Inc. (MNHPI) and Luzon Clean Water Development Corporation (“LCWDC”) for the Bulacan Bulk Water Supply Project. The Skyway Stage 3 has already been opened to motorists while awaiting formal Toll Operating Permit from the Toll Regulatory Board of the Department of Transportation.

SLEX / Skyway Stages 1 and 2 / Alabang South Skyway Extension

As of March 5, 2015, SMHC has a 95% stake in Atlantic Aurum Investments B.V. (“AAIBV”), a company which has the following shareholdings:

- 80.0% stake in SMC SLEX Inc. (formerly South Luzon Tollway Corporation), through MTD Manila Expressways, Inc. (“MTDME”), a wholly-owned subsidiary of AAIBV. SMC SLEX Inc. holds the 30-year concession rights to the SLEX, which currently spans 36.1 kilometers (km) from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is one of the three major expressways that link Metro Manila to the key southern provinces of the Philippines, including Cavite, Laguna, Batangas, Rizal and Quezon (“CALABARZON”). It also holds the 35-year concession rights to SLEX TR4 which will extend SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province with a length of 56.862 km; and
- 87.84% beneficial ownership in SMC Skyway Corporation (formerly Citra Metro Manila Tollways Corporation), through Atlantic Aurum Investments Philippines Corporation (“AAIPC”), a wholly-owned subsidiary of AAIBV. SMC Skyway Corporation holds the 30-year concession rights to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

The Alabang South Skyway Extension Project will extend the Skyway Elevated Section from Sucat to Susana Heights in SLEX providing direct access to and from the elevated section of the Skyway by adding new elevated lanes, three northbound (3.993 km) and two southbound (3.993 km). The project aims to decongest traffic along SLEX heading to Alabang and the Alabang viaduct.

STAR Tollway

SMHC, through Cypress Tree Capital Investments, Inc. (“CTCII”) has an effective 100% interest in Star Infrastructure Development Corporation (“SIDC”). SIDC holds the 36-year Build-Transfer-Operate (“BTO”) concession rights of the STAR Project consisting of: Stage 1 - operation and maintenance of the 22.16 km toll road from Sto. Tomas to Lipa City; and Stage 2 - financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City to Batangas City.

TPLEX

SMHC, through its subsidiary, SMC TPLEX Holdings Co. Inc. (“STHCI”; formerly Rapid Thoroughfares Inc.), owns a 70.11% equity interest in SMC TPLEX Corporation (“SMCTC”; formerly Private Infra Dev Corporation). SMCTC is a company which holds the 35-year BTO concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union. The stretch from Tarlac to Pozzorubio, Pangasinan has been operational since

December 2017. The last phase from Pozzorubio to Rosario, La Union was completed and has been operational since July 15, 2020.

NAIAx

On May 31, 2013, SMHC incorporated SMC NAIAX Corporation (formerly Vertex Tollways Devt. Inc., as approved by the SEC on March 2, 2021) (“SMC NAIAX”), a company that holds the 30-year BTO concession rights for the construction and operation of the NAIAX – a four-lane elevated expressway with end-to-end distance of 5.4 km that will provide access to NAIA Terminals 1, 2 and 3. NAIAX connects to the Skyway system, the Manila-Cavite Toll Expressway (CAVITEX) and the Entertainment City of the Philippine Amusement and Gaming Corporation. NAIAX became fully operational in December 2016.

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. (“S3HC”), which holds an 80% ownership interest in SMC Skyway Stage 3 Corporation (formerly Citra Central Expressway Corp.). SMC Skyway Stage 3 Corporation holds the 30-year concession rights to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with a total length of approximately 17.93 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. Skyway Stage 3 will inter-connect the northern and southern cities of Metro Manila to help decongest traffic within the National Capital Region and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

On March 15, 2016, AAIBV transferred its 100% ownership interest in S3HC to AAIPC, its 100% wholly owned subsidiary.

On April 16, 2019, a stockholder of SMC Skyway Stage 3 Corporation issued a waiver on its pre-emptive right to subscribe to 10% interest in favor of S3HC. S3HC already holds 90% ownership interest in SMC Skyway Stage 3 Corporation.

End-to-end alignment (main alignment) was completed and partially opened on December 29, 2020, with continuous construction works for toll plazas and remaining ramps to be completed by December 2021. The Skyway Stage 3 Project was formally inaugurated and opened to motorists on January 14, 2021, free of toll fee.

Skyway Stage 4

SMHC, through its subsidiary, SMC Infraventures Inc., owns a 77.93% equity interest in SMC Skyway Stage 4 Corporation (formerly Citra Intercity Tollways, Inc.). SMC Skyway Stage 4 Corporation holds the concession right to construct Skyway Stage 4, a proposed 56.74-km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 will serve as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide a faster alternate route and accessibility to the motorist when travelling from the provinces of CALABARZON area to the Metropolis. The project has a concession period of 30 years (from start of operations).

Boracay Airport

SMC, through the 99.92% interest of SMHC in Trans Aire Development Holdings Corp. (“TADHC”), is undertaking the expansion of Boracay Airport under a 25-year Contract-Add-Operate-and-Transfer concession granted by the Republic of the Philippines (“ROP”), through the Department of Transportation and Communications (now the Department of Transportation). Boracay Airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. The airport has seen recent upgrades including a longer runway and accommodation of international flights.

MRT-7

In October 2010, SMC, through SMHC, acquired a 51.0% stake in Universal LRT Corporation (BVI) Limited (“ULC BVI”), which holds the 25-year Build-Gradual Transfer-Operate-Maintain concession for MRT-7. MRT-7 is a planned expansion of the metro rail system in Manila which mainly involves the construction of a 22-km mass rail transit system with 14 stations that will start from San Jose del Monte City in Bulacan and end at the integrated LRT-1 / MRT-3 / MRT-7 station at North EDSA. The project also involves a 22-km six lane asphalt highway that will connect the North Luzon Expressway to an intermodal transport terminal in San Jose del Monte City, Bulacan.

As of July 1, 2016, SMC, through SMHC already holds 100% ownership in ULC BVI.

On December 12, 2016, the ROP through the Department of Transportation, gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC Mass Rail Transit 7, Inc. (“SMC MRT 7”). SMC through SMHC owns 100% of SMC MRT 7.

MNHPI

MNHPI is the terminal operator of Manila North Harbor, a 63.5-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,758 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop, and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010. SMC through SMHC owns 50% of MNHPI as of December 31, 2020.

Bulacan Bulk Water Supply Project

The Bulacan Bulk Water Supply Project aims to provide clean and potable bulk water supply to the province of Bulacan that is environmentally sustainable and with a price that is equitable. The project also aims to help various water districts in Bulacan to meet the increasing water demand of consumers, expand its current service area coverage and increase the number of households served by providing a reliable source of treated bulk water. SMC through SMHC owns 90% of LCWDC, which will serve as the concessionaire for a period of 30 years (inclusive of the two-year construction period). Stage 1 of this project was completed in January 2019 and started supplying potable bulk water to six Water Service Providers (San Jose del Monte, Marilao, Meycauayan, Obando, Bocaue, and Balagtas) as of the first quarter of 2019. Stage 2 was completed and started its commercial operations for the other six Water Service Providers (Plaridel, Sta. Maria, Guiguinto, Bulakan, Malolos, Calumpit) in April 2019.

Manila International Airport

On September 18, 2019, San Miguel Aerocity Inc. doing business under the name and style of “Manila international Airport” (“SMAI”), a wholly-owned subsidiary of SMHC, signed a Concession Agreement (“CA”) with the Department of Transportation for the development of the Manila International Airport (“MIA”). MIA will be governed by a 50-year CA with the ROP and will be built under a Build-Operate-Transfer (“BOT”) framework. The project, which will be located in a 2500-hectare property in Bulakan, Bulacan, will provide a long-term solution to air connectivity between the Philippines and the rest of the world.

On January 15, 2021, the Concession Agreement was further enhanced by Republic Act No. 11506 entitled, “An Act Granting San Miguel Aerocity Inc. a Franchise to Construct, Develop, Establish, Operate, and Maintain a Domestic And International Airport In The Municipality of Bulakan, Province of Bulacan, And To Construct, Develop, Establish, Operate, And Maintain An Adjacent Airport City”

(the Legislative Franchise). The Legislative Franchise gives SMAI tax exemptions (in general) during the development and operations stages of the project and the power to acquire any private lands forming part of the project. On January 21, 2021, SMAI formally accepted the incentives and obligations under the Legislative Franchise.

MIA will be developed in phases with an initial capacity of 35 million annual passengers (“MAP”) and ultimate capacity of 100 MAP. The airport shall primarily be linked by an 8-km toll road to Metro Manila via the North Luzon Expressway, with an integrated multi-modal transport network in the development pipeline.

Banking

SMC, through SMPI, made a series of acquisitions of Bank of Commerce (“BOC”) shares in 2007 and 2008 and has a current ownership of 39.93%. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

On December 17, 2018, SMC, through SMC Equivest Corporation, acquired 5,258,956 common shares of BOC representing 4.69% ownership interest.

Cement

The Cement business is conducted under San Miguel Equity Investments Inc. (“SMEII”) through the following companies:

Northern Cement Corporation (“NCC”), with 100% of its issued and outstanding common stock owned by SMEII, has more than 50 years of cement production and domestic sales experience, mainly, in the Central Luzon (Region 3), and North Luzon (Regions 1 and 2) markets. It manufactures Type 1, Type 1P and Type N cement, the major cement products in the industry.

NCC was incorporated and registered with the SEC on February 10, 1967. From the commencement of its operations on February 1970 in Sison, Province of Pangasinan, it has been engaged in the business of manufacturing, developing, processing, exploiting, buying and selling cement and/or other allied products.

Presently, NCC owns and operates two dry-process rotary kilns and two finish mills. The existing production facility has an annual rated capacity of 2.2 million metric tons per year (“MTPY”) of finished cement. The raw materials used in its cement manufacturing process are generally a mixture of quarried materials – limestone, shale and gypsum.

San Miguel Northern Cement, Inc. (“SMNCI”), a wholly-owned subsidiary of SMEII, was incorporated and registered with the SEC on October 2, 2017 to engage in the business of manufacturing, developing, processing, exploiting, importing, exporting, buying, selling or otherwise dealing in such goods as cement and other products of similar nature.

SMNCI is currently undertaking the design, development and construction of two (2) integrated state of the art cement production lines (from crushing to cement packaging) (Lines “A” and “B”), which includes two (2) kilns and two (2) finish mills, to be located adjacent to the existing cement facilities and quarry site of NCC. The SMNCI project will have an overall capacity of 3.63 million MTPY of clinker and 4.73 million MTPY of finished cement, or 118.3 million 40-kg bags.

The additional supply of cement is targeted to meet the strong demand in Northern Luzon (Region 1 and Region 2), the Cordillera Administrative Region (CAR), and Central Luzon (Region 3).

Oro Cemento Industries Corporation (“OCIC”), a wholly owned subsidiary of SMEII, is in the process of constructing a cement grinding plant in Santa Cruz, Province of Davao del Sur. Its world class

equipment is capable of producing 2 million MTPY while minimizing impact to the environment. OCIC is expected to commence commercial operations by second semester of 2021.

CLARIDEN HOLDINGS, INC.

Clariden is a holding company incorporated in July 2009. It was acquired by the Parent Company as a wholly owned subsidiary in August 2013.

Clariden holds mining tenements in various areas in the Philippines. These mining tenements, owned by Clariden's various subsidiaries, include Mineral Production Sharing Agreements ("MPSA") for the Nonoc Nickel Project and Mt. Cadig Nickel Project, Exploration Permits ("EP") for certain areas under the Bango Gold Project, and pending Application for Production Sharing Agreement ("APSA") and pending Exploration Permit Applications ("ExpAs") for other areas of the Bango Gold Project.

Clariden has a diverse portfolio of high quality mineral properties with high earnings potential that are located in mineral producing districts in the Philippines, as follows:

Nonoc Nickel Project [MPSA No. 072-97-XIII (SMR)]

Clariden, through its indirect beneficial ownership in Philnico Industrial Corporation ("PIC"), Pacific Nickel Philippines, Inc. ("PNPI"), and Philnico Processing Corp. ("PPC"), was granted a contract area of approximately 23,877 hectares located in the islands of Nonoc, Hanigad, and Awasan, Surigao City; and Basilisa and Cagdianao, Dinagat Island Province. The project was granted the fifth renewal of the two-year exploration period by the Mines and Geosciences Bureau last February 10, 2017 covering the period of February 25, 2017 to February 24, 2019 subject to the full implementation of the approved Exploration Work Program and Environmental Work Program, as well as the filing of Declaration of Mining Project Feasibility (DMPF). On February 7, 2019, PNPI filed the request for the renewal of the MPSA's exploration period with the MGB. The request is anchored on (1) the need to complete various technical studies; (2) the need to settle the PIC vs PMO case; and (3) PNPI's satisfactory compliance to the terms and conditions of the fifth renewal of the MPSA's exploration period.

On November 6, 2019, pursuant to the Order of the Department of Environment and Natural Resources approving the Deeds of Assignment between PNPI and VIL Mines Inc. ("VMI") and PNPI and Prima Lumina Gold Mining Corp ("PLGMC"), PNPI's MPSA-072-97-XIII-SMR was redenominated as:

- MPSA-072-97-XIII-SMR (Amended A) in the name of PNPI covering 10,577.6157 hectares (Nonoc, Awasan, and Hanigad Islands plus Sabang Dam area);
- MPSA-072-97-XIII-SMR (Amended B) in the name of PLGMC covering 7,035 hectares (North Dinagat); and
- MPSA-072-97-XIII-SMR (Amended C) in the name of VMI covering 6,264 hectares (South Dinagat).

Among others, the three companies were mandated to submit an Exploration Work Program or a Declaration of Mining Project Feasibility. The three companies submitted applications for the renewal of their exploration periods which were granted on September 9, 2020 for PNPI and on October 13, 2020 for PLGMC and VMI.

Mt. Cadig Nickel Project (MPSA No. 346-2010-IVA)

Clariden, through VMI (a wholly-owned subsidiary of Clariden) has the exclusive right to conduct exploration, development and utilization activities for nickel within its 11,126.3576-hectare contract area located in Tagkawayan, Quezon and Labo and Sta. Elena, Camarines Norte pursuant to its MPSA granted on June 25, 2010. In view of the peace and order situation in the contract area, the

Company filed with the DENR-MGB a request for suspension of obligations of the MPSA due to *force majeure*. The request was originally granted by the Mines and Geosciences Bureau last August 24, 2017 and will be valid for two years or up to August 23, 2019. The suspension was renewed for another two years pursuant to an Order from the Mines and Geosciences (MGB) dated August 5, 2019. VMI continues to maintain its good relationship with its host community.

Bango Gold Project (EP Nos. 000001-2011-XI and 000002-2011-XI)

Clariden, through PLGMC, is the assignee of the two EPs covering certain areas of Compostela Valley and Davao Oriental. These EPs allow PLGMC to conduct exploration activities for gold to determine its existence, extent, quantity and quality. In July 2016, Prima Lumina filed with the MGB a request for extension of its two-year exploration period under the MPSA and is currently awaiting approval. PLGMC continues to implement community development activities for its host communities.

North Davao Project

In 2009, Asia-Alliance Mining Resources Corp. won the bid conducted by the Philippine Mining Development Corporation (“PMDC”) to undertake the exploration, development, and utilization of North Davao Mining Property’s gold and copper deposits under a Joint Operation Agreement (“JOA”) to be executed between the parties.

Dinagat Nickel-Chromite Project

On January 24, 2006, PPC and the PMDC entered into a JOA designating PPC as the project contractor exclusively authorized to explore, develop, and commercially utilize the nickel deposit within a 3,600 hectare area in the municipalities of Cagdianao and Basilisa in Dinagat Island, Surigao del Norte, adjacent to MPSA No. 072-97-XII (SMR). The JOA was assigned by PPC to PNPI in June 2007. Additional exploration is required to increase the current resources in the area.

However, the JOA was cancelled by the PMDC on June 26, 2019 for alleged non-compliance with the terms and conditions of the JOA. PNPI refuted PMDC’s findings on July 9, 2019 but PMDC responded on October 8, 2019 that the June 26, 2019 decision stands and PNPI’s request is denied with finality. In an earlier letter dated October 2, 2019, PNPI informed the PMDC that it can resort to arbitration, per the JOA, and is not waiving and has every intent to avail of all remedies under the JOA and the law.

Offshore Sand Project

Two of Clariden’s subsidiaries namely, VMI and PLGMC are currently involved in the Offshore Sand Project.

VMI has three applications for Offshore Exploration Permits (“OEP”) covering parts of the provinces of Cavite, Batangas, Bataan, Pampanga, Bulacan and Metro Manila and an application for a Government Seabed Quarry Permit (“GSQP”) in parts of Cavite province. Pending approval, two of the three OEP applications were each granted with an Authority to Verify Minerals by the MGB, one on February 11, 2019 and the other on June 7, 2019. An Authority to Verify Minerals was also granted to the GSQP-applied area last November 15, 2019.

On March 12, 2020, the Company was also granted a GSQP No. OMR002-2019-IV.

PLGMC also has two applications for OEP covering parts of Bulacan, Metro Manila and Bataan. The two OEP applications were granted with an Authority to Verify Minerals by the MGB, both on February 11, 2019.

Financial Statements

The following financial statements of the Company, namely:

1. the Audited Consolidated Financial Statements of the Company and its subsidiaries as of December 31, 2020, including the Company's Statement of Management's Responsibility, and Notes to the 2020 Audited Consolidated Financial Statements of the Company, are collectively attached hereto as **Annex "B-1"**; and
2. the Unaudited Consolidated Financial Statements of the Company and its subsidiaries as of and for the period ended March 31, 2021 (with comparative figures as of December 31, 2020 and for the period ended March 31, 2020), comprising of the Interim Unaudited Balance Sheet or Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity, together with the Selected Notes to the Financial Statements, are collectively attached hereto as **Annex "B-2"**.

Management's Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis of the Company as of December 31, 2020 and March 31, 2021 are attached hereto as **Annexes "C-1"** and **"C-2"**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with the Company's external auditors on accounting and financial disclosure.

Audit and Audit Related Fees

The Company paid the external auditor the amount of P1.8 million in 2020 and 2019, for its audit services rendered in both years. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

Pursuant to the Amended Manual of Corporate Governance of the Company, the appointment of the external auditor shall be recommended by the Audit and Risk Oversight Committee, approved by Board, and ratified by the shareholders. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. The Audit and Risk Oversight Committee's approval policies and procedures for external audit fees and services are stated in the Company's Amended Manual of Corporate Governance and in the Audit and Risk Oversight Committee Charter.

Adequacy of Internal Controls

During the meeting of the Board of Directors on March 11, 2021, upon the attestation of the President and Chief Executive Officer and the Internal Audit Group Head, the Board of Directors confirmed and certified that sound internal audit, control and compliance system is in place and working effectively.

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

On October 17, 2013, the SMC Board approved the declaration, by way of property dividends, of 240,196,000 common shares of the Company to the SMC common shareholders of record as of November 5, 2013, which dividend declaration was approved by the SEC on November 19, 2013. The Certificate Authorizing Registration was issued by the Bureau of Internal Revenue on December 26,

2013 and the physical distribution of the property dividends commenced on January 2, 2014.

Top Frontier's 490,196,200 common shares, composing the total issued common shares of the Company, were listed by way of introduction in the PSE on January 13, 2014. The percentage of public ownership of the Company as of April 30, 2021 is 11.97%.

The high and low prices of the common shares of Top Frontier for each quarter within the last two (2) fiscal years and for the first quarter of 2021 are as follows:

	2021		2020		2019	
	Common		Common		Common	
	High	Low	High	Low	High	Low
1 st Quarter	P145.20	P128.20	P214.00	P125.00	P289.60	P232.00
2 nd Quarter	-	-	P156.00	P124.50	P276.00	P260.40
3 rd Quarter	-	-	P137.60	P119.00	P267.00	P216.20
4 th Quarter	-	-	P150.00	P117.00	P246.80	P201.20

The closing price of the Company's common shares as of May 18, 2021, the latest practicable trading date, is P133.70 per share.

The number of shareholders of the Company as of April 30, 2021 is 31,268.

The top twenty (20) stockholders of the Company as of April 30, 2021 are as follows:

Rank	Name of Stockholders	No. of Common Shares	No. of Preferred Shares	Total No. of Shares	% out of Total Outstanding Shares
1	Iñigo U. Zobel	199,601,517	0	199,601,517	59.6198 %
2	Master Year Limited	49,799,800	0	49,799,800	14.8749 %
3	Privado Holdings, Corp.	36,814,051	0	36,814,051	10.9961 %
4	PCD Nominee Corporation (Filipino)	26,027,568	0	26,027,568	7.7743 %
5	San Miguel Corporation	2,561,031	1,904,540	4,465,571	1.3338 %
6	PCGG In Trust For The Comprehensive Agrarian Reform Program	2,763,633	0	2,763,633	0.8255 %
7	PCD Nominee Corporation (Non- Filipino)	1,912,999	0	1,912,999	0.5714 %
8	Millennium Energy, Inc.	1,080,738	0	1,080,738	0.3228 %
9	Sysmart Corporation	345,700	0	345,700	0.1033 %
10	Marine Shore Investment Holdings, Inc.	258,767	0	258,767	0.0773 %
11	Columbus Capitana Corporation	239,233	0	239,233	0.0715 %
12	Everett Steamship Corporation	190,333	0	190,333	0.0569 %
13	Gingoo Holdings Corporation	183,008	0	183,008	0.0547 %
14	El Superior de la Corporacion Filipina de Padres Agustinos Recoletos, Inc.	170,000	0	170,000	0.0508%
15	Eduardo M. Cojuangco, Jr.	127,354	0	127,354	0.0380%
16	Macrina Leyson	114,475	0	114,475	0.0342%
17	Carmel of the Divine Infant Jesus of Prague Inc. A/C No. 2	95,751	0	95,751	0.0286%
18	Pac Rim Realty & Development Corp.	91,205	0	91,205	0.0272%
19	The Roman Catholic Bishop of Tuguegarao	85,663	0	85,663	0.0256%
20	Henry Sy Sr.	81,569	0	81,569	0.0244%

Rank	Name of Stockholders	No. of Common Shares	No. of Preferred Shares	Total No. of Shares	% out of Total Outstanding Shares
	TOTAL	322,544,395	1,904,540	324,448,935	96.9110%

The Company's dividend policy is set out in Section 3, Article VI, of the Company's By-laws, which provides that dividends shall be declared and paid out of the unrestricted earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

The Board of Directors of the Company approved the declaration and payment of the following cash dividends for preferred shares as follows:

2020

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 12, 2020	March 12, 2020	March 13, 2020	P279.00
May 28, 2020	May 28, 2020	May 29, 2020	139.50
August 6, 2020	August 6, 2020	August 7, 2020	139.50
November 5, 2020	November 5, 2020	November 6, 2020	139.50

2019

Date of Declaration	Date of Record	Date of Payment	Dividend per Share
March 14, 2019	March 14, 2019	March 15, 2019	P279.00
May 9, 2019	May 9, 2019	May 10, 2019	279.00
August 8, 2019	August 8, 2019	August 9, 2019	139.50
November 7, 2019	November 7, 2019	November 8, 2019	279.00

There were no cash dividends declared and paid by the Company for common shares in 2020 and 2019.

On March 11, 2021, the Board of Directors of the Company declared cash dividends at P139.50 per share to preferred shareholders of record as at March 11, 2021 to be paid on March 12, 2021.

Description of the securities of the Parent Company may be found in Note 24, Equity, of the 2020 Audited Consolidated Financial Statements, attached herein as **Annex "B-1"**.

There were no securities sold by the Parent Company within the past three (3) years which were not registered under the SRC.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. On September 19, 2013, the Board of Directors adopted the Company's Manual of Corporate Governance pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009. On July 31, 2014, the Board approved the adoption of amendments to the Company's Manual of Corporate Governance, incorporating therein, among others, the amendments pursuant to SEC Memorandum Circular 9, Series of 2014. On May 10, 2017, the Board approved to further amend the provisions of the Company's Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016 (the "Amended Manual on Corporate Governance").

In compliance with the provisions of the Amended Manual on Corporate Governance: (i) the members of the Board and officers of the Company have attended corporate governance trainings and seminars for 2020, as set out in **Annex “D”** hereto, and (ii) the performance of the Board Committees, the Board of Directors, and Management for 2020 were assessed through self-rating forms approved and accomplished by the Board Committees, Board of Directors, and Management. The results of the 2020 Performance Assessment of the Board of Directors, as validated by the Compliance Officer and the Corporate Governance Committee, is summarized in **Annex “E”** herein. The details of the foregoing matters, as well as all other disclosures made by the Company pursuant to relevant rules and regulation of the SEC and the PSE are posted in the Company’s website www.topfrontier.com.ph.

The directors’ attendance in meetings of the Board Committees, the Board of Directors, and the stockholders since the 2020 Annual Stockholders’ Meeting up to the date of this Information Statement are set out in the attached **Annex “F”**.

The Compliance Officer has certified that the Company has substantially adopted all the provisions of its Amended Manual on Corporate Governance. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company, its stockholders, and other stakeholders.

ACTION WITH RESPECT TO REPORTS

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

1. Minutes of the Annual Stockholders’ Meeting held on July 09, 2020, with the following items:
 - a. Certification of Quorum
 - b. Approval of the Minutes of the Annual Stockholders’ Meeting held on July 09, 2019
 - c. Approval of the Annual Report
 - d. Ratification of Acts and Resolutions of the Board of Directors and Corporate Officers
 - e. Appointment of External Auditors
 - f. Election of the Board of Directors
 - g. Other Matters
 - h. Adjournment

A copy of the Minutes of the Annual Stockholders’ Meeting held on July 09, 2020 is hereto attached as **Annex “G”**, which contain among others the following matters (with their respective page numbers in the Minutes):

- i. the voting and vote tabulation procedures used during the said meeting (page 2 and Annex “C” of the Minutes)
 - ii. the questions and answers discussed during the open forum (page 3)
 - iii. the matters discussed and resolutions reached (pages 2 - 6)
 - iv. the record of voting results for each agenda item (Annex “B” of the Minutes)
 - v. the list of directors, officers and stockholders who attended the meeting (page 1 and Annex “A” of the Minutes)
2. Annual Report of the Company for the year ended December 31, 2020;
3. Ratification of all the acts of the Board of Directors and Officers since the 2020 Annual Stockholders’ Meeting which include:
 - a. Approval of:
 - i. Minutes of Previous Meetings
 - ii. Quarterly reports on the financial performance and financial position of the Company
 - iii. Declarations of cash dividends to shareholders owning preferred shares
 - iv. Amended Board Charter

- v. 2020 Audited Financial Statements of the Company and the Annual Report (SEC Form 17-A)
 - vi. Self-rating forms of the Board Committees, the Board of Directors, and Management
 - vii. 2021 Internal Audit Plan
 - viii. Approval for the record date and other significant dates and details for the 2021 Annual Stockholders' Meeting, approval of the holding thereof by remote communication, and the approval of the procedure and details for attending, participating, and casting of votes in the 2021 Annual Stockholders' Meeting
 - ix. Report on the nominations and qualifications of the nominees for election to the Board
 - x. Approval of the Appointment of the External Auditors for 2021, for approval and ratification by stockholders in the 2021 Annual Stockholders' Meeting
 - xi. Report on SEC Memorandum Circular No. 1, series 2021 regarding the Beneficial Ownership Guidelines
 - xii. Designation of the authorized filer with the SEC's Online Submission Tool
 - xiii. Report on the Corporate Governance Committee validation of the results of the 2020 Performance Assessments of the Board Committees, the Board of Directors and Management
 - xiv. Report on the Filing of the 2020 Integrated Annual Corporate Governance Report (I-ACGR) of the Company
- b. Election of the lead independent director and officers;
 - c. Appointment of the Members of the Board Committees; and
 - d. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits.

Electronic copies of the Minutes of the Annual Stockholders' Meeting held on July 09, 2020, and the summary of the resolutions of the Board of Directors beginning July 09, 2020 are available at the Company's website at www.topfrontier.com.ph.

VOTING PROCEDURES

In all proposals or matters for approval (except for election of directors), each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in page 8 of this Definitive Information Statement shall be adopted. For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors and the Company's stock transfer agent.

Considering that the 2021 Annual Stockholders' Meeting will be held via remote communication, votes of all stockholders on any or all of the proposals or matters submitted at the meeting can be cast through ballots or proxies submitted on or before **June 25, 2021** by email sent to ASM2021@topfrontier.com.ph or by mail sent to the SMC Stock Transfer Service Corporation office located at the 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines. Ballots and proxies need not be notarized. A sample of the ballot and proxy included in this Information Statement. Validation of ballots and proxies will be on **July 02, 2021** at 2:00 p.m. at the SMC Stock Transfer Service Corporation office located at the above-mentioned address.

For an individual, his/her ballot or proxy must be accompanied by a scanned copy of his/her valid government-issued identification card with photo for verification of identity. For a corporation, its ballot or proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to vote and/or represent the corporation in the meeting, where applicable. Hard copies of the ballots and proxies and notarized Secretary's Certificates are requested to be sent to the SMC Stock Transfer Service Corporation office located at the above-mentioned address within a reasonable time thereafter.

UNDERTAKING

The Company will post and make available for download on its website www.topfrontier.com.ph the full version of the 2021 Definitive Information Statement (SEC Form 20-IS), together with all its annexes which includes: (i) the 2020 Audited Consolidated Financial Statements of the Company, and the (ii) 1st Quarter 2021 Unaudited Consolidated Financial Statements of the Company, upon the approval thereof by the SEC.

The Company undertakes to provide any requesting stockholder, free of charge, a copy of the 2020 Annual Report (SEC Form 17-A), the 2021 Definitive Information Statement (SEC Form 20-IS), and the 1st Quarter 2021 Unaudited Consolidated Financial Statements (SEC Form 17-Q), upon written request addressed to the Office of the Corporate Secretary and Compliance Officer, 7th Floor, San Miguel Corporation Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines or via email at smc_stsc@sanmiguel.com.ph.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in Mandaluyong City, Metro Manila, Philippines on **May 21, 2021**.

TOP FRONTIER INVESTMENT HOLDINGS, INC

By:



Virgilio S. Jacinto

Corporate Secretary and Compliance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC.
2021 ANNUAL STOCKHOLDERS' MEETING
JULY 09, 2021, 2:00 p.m. via remote communication
(livestream at www.topfrontier.com.ph)

Please mark as applicable:

Vote by ballot: The undersigned stockholder (or proxy of the shareholder named below) of Top Frontier Investment Holdings, Inc. (the "Company") casts his/her vote on the agenda items for the 2021 Annual Stockholders' Meeting, as expressly indicated with "X" below in this ballot.

Vote by proxy: The undersigned stockholder of the Company hereby appoints _____ or, in his/her/its absence, the Chairman of the meeting, as attorney and proxy, to represent and vote all the shares registered in his/her/its name at the 2021 Annual Stockholders' Meeting and any of its adjournment(s), as fully as the undersigned can do if present and voting in person, ratifying all action taken on matters that may properly come before such meeting or its adjournment(s). The undersigned directs the proxy to vote on the agenda items which have been expressly indicated with "X" below. If the undersigned fails to indicate his/her/its vote on the agenda items specified below, his/her/its proxy shall vote in accordance with the recommendation of Management. Management recommends a "FOR ALL" vote for proposal 1, and a "FOR" vote for proposals 2 through 5.

PROPOSAL	ACTION			
	VOTE FOR ALL	WITHHOLD FOR ALL	VOTE ONLY FOR	FULL DISCRETION OF PROXY (IF FORM USED AS PROXY)
1. Election of Directors				
The nominees are:				
a. Iñigo U. Zobel			a.	
b. Ramon S. Ang			b.	
c. John Paul L. Ang			c.	
d. Aurora T. Calderon			d.	
e. Consuelo M. Ynares-Santiago (<i>Independent Director</i>)			e.	
f. Minita V. Chico-Nazario (<i>Independent Director</i>)			f.	
g. Teresita J. Leonardo-De Castro (<i>Independent Director</i>)			g.	
	FOR	AGAINST	ABSTAIN	
2. Approval of the Minutes of the Annual Stockholders' Meeting held on July 09, 2020 (the "2020 Annual Stockholders' Meeting")				
3. Approval of the Annual Report of the Company for the year ended December 31, 2020				
4. Ratification of all Acts of the Board of Directors and Corporate Officers since the 2020 Annual Stockholders' Meeting				
5. Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2021				

Signed this _____ day of _____ 2021 at _____.

 PRINTED NAME OF STOCKHOLDER

 SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY or
 NAME AND SIGNATURE OF PROXY

Questions/Comments to the Board of Directors and/or Management:

NOTE: The deadline for the submission of the ballot/proxy is **June 25, 2021**, which may be sent by email to ASM2021@topfrontier.com.ph or by mail to the SMC Stock Transfer Service Corporation office located at the 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines. This ballot/proxy, when properly executed, will be voted in the manner as marked/directed herein by the stockholder. If no direction is made in the proxy, such proxy will be voted for the election of all nominees and for the approval of the matters stated above and for such other matters as may properly come before the meeting as recommended by the management or the Board of Directors. A stockholder giving a proxy has the power to revoke it either in an instrument in writing duly presented to and recorded with the Corporate Secretary at least ten (10) working days prior to the 2021 Annual Stockholders' Meeting. Notarization of this proxy is not required. For an individual, his/her ballot/proxy must be accompanied by a valid government-issued ID with a photo for verification of identity. For a corporation, its proxy must be accompanied by a certification issued by its corporate secretary setting the representative's authority to vote and/or represent the corporation in the 2021 Annual Stockholders' Meeting, where applicable ("Secretary's Certificate"). Validation of ballots and proxies will be on July 02, 2021 at 2:00 p.m. at SMC Stock Transfer Service Corporation office located at the above-mentioned address. For ballots, proxies and Secretary's Certificates sent via email, the hard copies of the ballots, proxies, and notarized Secretary's Certificate are requested to be sent to SMC Stock Transfer Service Corporation office at the above-mentioned address within a reasonable time thereafter.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **CONSUELO M. YNARES-SANTIAGO**, Filipino, of legal age and a resident of No. 4 Queensville cor. Derby Streets, White Plains, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:


1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2013 to present.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/Relationship</i>	<i>Period of Service</i>
SMC Global Power Holdings Corp.	Independent Director	2011 to present
Anchor Insurance Brokerage Corporation	Independent Director	2012 to present
South Luzon Tollway Corporation	Independent Director	2015 to present
Phoenix Petroleum Phil. Inc.	Independent Director	2013 to present
National Sandigan Foundation of the Philippines	Legal Consultant	2009 to present
Tahanan Outreach Program Services (TOPS)	Member, Board of Directors	2014 to present
UP Women Lawyers' Circle (WILOCI)	Consultant	2002 to present
Women's Lawyers' Association of the Philippines	Member	1990 to present
Federacion Internacional de Abogadas	Member	1990 to present
Apostleship of Prayer Association	Member	2002 to present
Retired Supreme Court Justices Association of the Philippines	Member	2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).
7. I shall faithfully and diligently comply with my duties and responsibilities as Independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 06 May 2021 at Mandaluyong City.


CONSUELO M. YNARES-SANTIAGO
 Affiant

SUBSCRIBED AND SWORN to before me this 06 May 2021 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Philippine Passport with No. EC2448352 issued on 17 October 2014 at DFA NCR East.

Doc. No.: 212 ;
 Page No.: 44 ;
 Book No.: VIII ;
 Series of 2021..




PAULA KATHERINA A. GAN
 Commission No. 0308-19
 Notary Public for Mandaluyong City
 Until June 30, 2021
 (FC Resolution, Effect Date: October 1, 2020)
 408-1 Pasiguit Ave., Mandaluyong City
 Roll No. 55988
 PTR No. 4573651, 01/06/21; Mandaluyong City
 IBP Lifetime Member No. 013353; 02/05/16; Quezon City
 MCLE Compliance No. VI-0019930; 04/14/22; Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MINITA V. CHICO-NAZARIO**, Filipino, of legal age and a resident of 299 Gov. A. Santos St., BF Homes, Parañaque City after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and has been its Independent Director since 2014 to present.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/Relationship</i>	<i>Period of Service</i>
San Miguel Properties, Inc.	Independent Director	2012 to present
Ginebra San Miguel Inc.	Independent Director	2012 to present
San Miguel Food and Beverage, Inc. (formerly, San Miguel Pure Foods Company, Inc.)	Independent Director	2015 to present
Tan Acut Lopez & Pison Law Offices	Of Counsel	2016 to present
Mariveles Grains Corp.	Member, Board of Directors	2011 to present
Philippine Grains International Corp.	Chairman	2011 to present
United Coconut Planters Bank	Legal Consultant	2014 to present
State of New York Bar	Member	Up to present
Integrated Bar of the Philippines, Manila IV	Member	Up to present
Women Lawyers Association of the Philippines	Member	Up to present
U.P. Women's Club	Member	Up to present
U.P. Women Lawyers' Circle (WILOCI)	Member	Up to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).
7. I shall faithfully and diligently comply with my duties and responsibilities as Independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 06 May 2021 at Mandaluyong City.


MINITA V. CHICO-NAZARIO
 Affiant

SUBSCRIBED AND SWORN to before me this 06 May 2021 at Mandaluyong City, affiant personally appeared before me and exhibited to me her Passport with No. P0931027B issued on March 6, 2019 at DFA Manila.

Doc. No.: 201 ;
 Page No.: 43 ;
 Book No.: VIII ;
 Series of 2021.




PAULA KATHERINA A. GAN
 Commission No. 0308-19
 Notary Public for Mandaluyong City
 (Until June 30, 2021)
 (C.C. Resolution dated December 1, 2020)
 SMC, 40 San Miguel Ave., Mandaluyong City
 Phil No. 55988
 PTR No. 4579651, 01/08/21; Mandaluyong City
 IBP Lifetime Member No. 013353; 02/05/15; Quezon City
 MCLE Compliance No. VI-0019930; 04/14/22; Pasig City

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **TERESITA J. LEONARDO-DE CASTRO**, Filipino, of legal age and a resident of Fort-Max Resort, Amsterdam St. Extension, Merville, Parañaque City, Metro Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an incumbent Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** since 09 July 2019.
2. I am affiliated with the following companies or organizations:

<i>Company/Organization</i>	<i>Position/Relationship</i>	<i>Period of Service</i>
Philippine Stock Exchange, Inc.	Independent Director	November 2020 to present
Securities Clearing Corporation	Director	November 2020 to present
San Miguel Corporation	Independent Director	August 6, 2020 to present
UP Sigma Alpha Alumni Association, Inc.	President	2018 to present
International Association of Women Judges (IAWJ)	President	2014 to 2016
	Member Executive Council	2016 to 2018
	Member	2018 to Present
Philippine Women Judges Association (PWJA)	President	2009 to 2018
	Associate Member	2018 to Present
Association of Retired Supreme Court Justices	Member	2018 to Present
UP Law Class 72 Foundation	Member	1997 to Present
University of the Philippines Alumni Association	Member	1968 to Present

Integrated Bar of the Philippines (IBP)	Member	1973 to Present
St. Paul College of Paranaque Alumni Association	Past President Member	Up to the Present

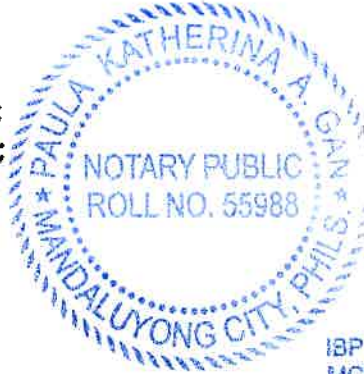
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **TOP FRONTIER INVESTMENT HOLDINGS, INC.**, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC Issuances.
4. I am not related to any director/officer/substantial shareholder of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** and its subsidiaries and affiliates.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I am not in government service nor affiliated with a government agency or any Government-Owned or Controlled Corporation (GOCC).
7. I shall faithfully and diligently comply with my duties and responsibilities as Independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.
8. I shall inform the Corporate Secretary of **TOP FRONTIER INVESTMENT HOLDINGS, INC.** of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _____ day of MAY 08 2021 at Mandaluyong City.

Teresita Leonardo de Castro
TERESITA J. LEONARDO-DE CASTRO
 Affiant

SUBSCRIBED AND SWORN to before me this MAY 06 2021 at
Mandaluyong City, affiant personally appeared before me and exhibited to me her
Passport with No. P3540390B issued on 16 October 2019 at DFA Manila.

Doc. No.: 2p ;
Page No.: 43 ;
Book No.: VIII ;
Series of 2021.



A handwritten signature in blue ink, appearing to be "PKA", written over the printed name.

PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until June 30, 2021

(P.C. Resolution dated December 1, 2020)
Swic., 40 San Miguel Ave., Mandaluyong City
Roll No. 55988

PTR No. 4579851, 01/08/21; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Quezon City
MCLE Compliance No. VI-0019930; 04/14/22; Pasig City

Annex “B-1”

Consolidated Financial Statements

(December 31, 2020, 2019 and 2018)

COVER SHEET

For
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	8	0	3	9	3	9
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COMPANY NAME

T	O	P		F	R	O	N	T	I	E	R		I	N	V	E	S	T	M	E	N	T							
H	O	L	D	I	N	G	S	,		I	N	C	.		A	N	D												
S	U	B	S	I	D	I	A	R	I	E	S																		

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

5	t	h		F	l	o	o	r	,		E	N	Z	O		B	u	i	l	d	i	n	g					
3	9	9		S	e	n	.		G	i	l	J	.		P	u	y	a	t		A	v	e	n	u	e		
M	a	k	a	t	i		C	i	t	y																		

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

8632-3000

Mobile Number

N/A

No. of Stockholders

31,284

Annual Meeting (Month / Day)

Second Tuesday of July

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Ms. Bella O. Navarra

Email Address

N/A

Telephone Number/s

8632-3000

Mobile Number

N/A

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.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

With Independent Auditors' Report



TOP FRONTIER
INVESTMENT HOLDINGS, INC.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS**


The management of Top Frontier Investment Holdings, Inc. (the "Company") is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

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.


IÑIGO U. ZOBEL
Chairman of the Board


RAMON S. ANG
President and Chief Executive Officer


BELLA NAVARRA
Chief Finance Officer

Signed this 11th day of March 2021

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)
CITY OF MANDALUYONG) S.S

BEFORE ME, a Notary Public for and in the City of Mandaluyong, Philippines on this APR 12 2021, personally appeared the following with his identification, to wit:

Name	Passport No.	Date of issue	Place of Issue
Iñigo U. Zobel	P2624337A	April 07, 2017	DFA Manila
Ramon S. Ang	P4589066A	October 02, 2017	DFA Manila
Bella O. Navarra	P1969090A	February 18, 2017	DFA NCR East

personally known to me to be the same persons who executed the foregoing instrument and that they acknowledged to me that the same is their free and voluntary act and deed and that of the corporation they are authorized to represent.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and place first above written.

Doc. No.: 62 ;
Page No.: 14 ;
Book No.: VII ;
Series of 2021.



PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until June 30, 2021
(P. C. Resolution dated December 1, 2020)
Shed, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4579651, 01/08/21; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15; Quezon City
MCLE Compliance No. VI-0019930; 04/14/22; Pasig City



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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Top Frontier Investment Holdings, Inc.
5th Floor, ENZO Building
399 Sen. Gil J. Puyat Avenue, Makati City

Opinion

We have audited the consolidated financial statements of Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit 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.

Revenue recognition (P725,776 million).

Refer to Notes 6, 25 and 33 of the consolidated financial statements.

The risk

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

Our response

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

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



Valuation of Goodwill (P120,463 million).

Refer to Notes 4, 5, 17 and 38 of the consolidated financial statements.

The risk

The Group has embarked on a diversification strategy and has expanded into new businesses through a number of acquisitions and investments resulting in the recognition of a significant amount of goodwill. The goodwill of the acquired businesses are reviewed annually to evaluate whether events or changes in circumstances affect the recoverability of the Group's investments.

The methods used in the annual impairment test of goodwill are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. The assumptions used include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.

Our response

We performed the following audit procedures, among others, on the valuation of goodwill:

- We assessed management's determination of the recoverable amounts based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined for each individual cash-generating unit.
- We tested the reasonableness of the discounted cash flow model by comparing the Group's assumptions to externally derived data such as relevant industry information, projected economic growth, inflation and discount rates. Our own valuation specialist assisted us in evaluating the models used and assumptions applied.
- We performed our own sensitivity analyses on the key assumptions used in the models.

Valuation of Other Intangible Assets (P276,250 million).

Refer to Notes 4, 5 and 17 of the consolidated financial statements.

The risk

The methods used in the annual impairment test for other intangible assets with indefinite useful lives and tests of impairment indicators for other intangible assets with finite useful lives are complex and judgmental in nature, utilizing assumptions on future market and/or economic conditions. These assumptions include future cash flow projections, growth rates, discount rates and sensitivity analyses, with a greater focus on more recent trends and current market interest rates, and less reliance on historical trends.



Our response

We performed the following audit procedures, among others, on the valuation of other intangible assets:

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

Other Information

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

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

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

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

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

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



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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Darwin P. Virocel.

R.G. MANABAT & CO.

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-031-2019

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

PTR No. MKT 8533922

Issued January 4, 2021 at Makati City

March 22, 2021

Makati City, Metro Manila

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(In Millions)

	<i>Note</i>	2020	2019
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 7, 39, 40	P347,962	P286,677
Trade and other receivables - net	4, 5, 8, 33, 35, 39, 40	120,965	132,907
Inventories	4, 5, 9	102,828	127,468
Current portion of biological assets - net	4, 16	3,401	4,151
Prepaid expenses and other current assets	4, 5, 10, 12, 33, 34, 39, 40	94,833	86,803
Total Current Assets		669,989	638,006
Noncurrent Assets			
Investments and advances - net	4, 5, 11	50,529	52,886
Investments in equity and debt instruments	4, 12, 39, 40	5,985	6,101
Property, plant and equipment - net	4, 5, 13, 34	543,371	495,814
Right-of-use assets - net	4, 5, 14, 34	192,104	197,245
Investment property - net	4, 15	62,370	53,528
Biological assets - net of current portion	4, 16	2,352	2,808
Goodwill	4, 5, 17, 38	120,463	120,392
Other intangible assets - net	4, 5, 17	276,250	255,836
Deferred tax assets	4, 5, 23	21,262	18,431
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 39, 40	80,869	90,130
Total Noncurrent Assets		1,355,555	1,293,171
		P2,025,544	P1,931,177
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 19, 30, 33, 38, 39, 40	P149,475	P178,507
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 39, 40	164,897	188,166
Lease liabilities - current portion	4, 5, 30, 33, 34, 38, 39, 40	27,622	27,371
Income and other taxes payable	5	21,031	21,239
Dividends payable	33, 36, 38	3,681	3,566
Current maturities of long-term debt - net of debt issue costs	5, 21, 30, 33, 38, 39, 40	74,597	43,913
Total Current Liabilities		441,303	462,762
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 21, 30, 33, 38, 39, 40	692,165	638,748
Lease liabilities - net of current portion	4, 5, 30, 33, 34, 38, 39, 40	94,565	122,466
Deferred tax liabilities	23	70,740	68,016
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 39, 40	39,651	37,125
Total Noncurrent Liabilities		897,121	866,355

Forward

	Note	2020	2019
Equity	24, 36, 37		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		P490	P490
Capital stock - preferred		260	260
Additional paid-in capital		120,501	120,501
Convertible perpetual securities		25,158	25,158
Equity reserves	5	3,955	6,401
Retained earnings:			
Appropriated		21,297	19,010
Unappropriated		64,363	67,398
Treasury stock		(76,780)	(76,780)
		159,244	162,438
Non-controlling Interests	2, 5	527,876	439,622
Total Equity		687,120	602,060
		P2,025,544	P1,931,177

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions, Except Per Share Data)

	<i>Note</i>	2020	2019	2018
SALES	6, 25, 33	P725,776	P1,020,480	P1,024,915
COST OF SALES	26, 34	577,495	819,855	827,343
GROSS PROFIT		148,281	200,625	197,572
SELLING AND ADMINISTRATIVE EXPENSES	27, 34	(78,405)	(86,523)	(82,908)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	19, 21, 30, 33, 34, 35	(50,694)	(53,730)	(42,766)
INTEREST INCOME	7, 31, 33, 35	6,187	10,688	7,211
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	11	424	106	(289)
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	5, 13, 15, 18	(491)	(237)	252
OTHER INCOME (CHARGES) - Net	4, 5, 32, 39, 40	14,153	6,551	(9,497)
INCOME BEFORE INCOME TAX		39,455	77,480	69,575
INCOME TAX EXPENSE	23, 42	15,833	28,909	24,715
NET INCOME		P23,622	P48,571	P44,860
Attributable to:				
Equity holders of the Parent Company		(P233)	P9,604	P7,000
Non-controlling interests	5	23,855	38,967	37,860
		P23,622	P48,571	P44,860
Basic/Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company	37	(P5.60)	P24.18	P16.29

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions)

	<i>Note</i>	2020	2019	2018
NET INCOME		P23,622	P48,571	P44,860
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	35	(357)	(3,382)	(540)
Income tax benefit		126	971	170
Net gain on financial assets at fair value through other comprehensive income	12	-	58	136
Income tax expense		(3)	(9)	(2)
Share in other comprehensive income (loss) of associates and joint ventures - net	11	(132)	(25)	2
		(366)	(2,387)	(234)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		(4,192)	(2,942)	1,157
Net gain (loss) on financial assets at fair value through other comprehensive income	12	1	11	(9)
Income tax expense		-	(1)	-
Net loss on cash flow hedges	40	(23)	(679)	(280)
Income tax benefit		5	192	84
		(4,209)	(3,419)	952
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		(4,575)	(5,806)	718
TOTAL COMPREHENSIVE INCOME - Net of tax		P19,047	P42,765	P45,578
Attributable to:				
Equity holders of the Parent Company		(P2,370)	P6,890	P6,684
Non-controlling interests	5	21,417	35,875	38,894
		P19,047	P42,765	P45,578

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions)

	Note	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity
		Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves					Retained Earnings		Treasury Stock		Total			
		Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred				
P490	P260	P120,501	P25,158	(P3,128)	(P405)	P1,533	(P2,966)	P11,367	P19,010	P67,398	(P28,457)	(P48,323)	P162,438	P439,622	P602,060			
As at January 1, 2020		P490	P260	P120,501	P25,158	(P3,128)	(P405)	P1,533	(P2,966)	P11,367	P19,010	P67,398	(P28,457)	(P48,323)	P162,438	P439,622	P602,060	
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(1,867)	-	-	-	-	-	(1,867)	(2,325)	(4,192)	
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	-	(45)	-	5	(36)	-	-	-	-	-	(76)	(56)	(132)	
Net income (loss) on cash flow hedges	40	-	-	-	-	-	(26)	-	-	-	-	-	-	-	(26)	8	(18)	
Net loss on financial assets at fair value through other comprehensive income	12	-	-	-	-	-	-	(2)	-	-	-	-	-	-	(2)	-	(2)	
Equity reserve for retirement plan	35	-	-	-	-	(166)	-	-	-	-	-	-	-	-	(166)	(65)	(231)	
Other comprehensive income (loss)		-	-	-	-	(211)	(26)	3	(1,903)	-	-	-	-	-	(2,137)	(2,438)	(4,575)	
Net income (loss)		-	-	-	-	-	-	-	-	-	-	(233)	-	-	(233)	23,855	23,622	
Total comprehensive income (loss)		-	-	-	-	(211)	(26)	3	(1,903)	-	-	(233)	-	-	(2,370)	21,417	19,047	
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	-	46	-	-	42	(397)	(1,844)	1,329	-	-	(824)	96,257	95,433	
Appropriations - net	24	-	-	-	-	-	-	-	-	-	4,131	(4,131)	-	-	-	-	-	
Cash dividends and distributions:	36																	
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,102)	(11,102)	
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,967)	(7,967)	
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,447)	(1,447)	
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,666)	(8,666)	
Redeemable perpetual securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(238)	(238)	
As at December 31, 2020	24	P490	P260	P120,501	P25,158	(P3,293)	(P431)	P1,536	(P4,827)	P10,970	P21,297	P64,363	(P28,457)	(P48,323)	P159,244	P527,876	P687,120	

Forward

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity
	Note	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves					Retained Earnings		Treasury Stock		Total		
		Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As at January 1, 2019, As adjusted		P490	P260	P120,501	P25,158	(P1,899)	(P114)	P1,444	(P1,662)	P13,154	P29,655	P47,535	(P28,457)	(P48,323)	P157,742	P376,968	P534,710
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	-	(1,308)	-	-	-	-	-	(1,308)	(1,634)	(2,942)
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	-	(78)	-	50	4	-	-	-	-	-	(24)	(1)	(25)
Net loss on cash flow hedges	40	-	-	-	-	-	(291)	-	-	-	-	-	-	-	(291)	(196)	(487)
Net gain on financial assets at fair value through other comprehensive income	12	-	-	-	-	-	-	39	-	-	-	-	-	-	39	20	59
Equity reserve for retirement plan	35	-	-	-	-	(1,130)	-	-	-	-	-	-	-	-	(1,130)	(1,281)	(2,411)
Other comprehensive income (loss)		-	-	-	-	(1,208)	(291)	89	(1,304)	-	-	-	-	-	(2,714)	(3,092)	(5,806)
Net income		-	-	-	-	-	-	-	-	-	-	9,604	-	-	9,604	38,967	48,571
Total comprehensive income (loss)		-	-	-	-	(1,208)	(291)	89	(1,304)	-	-	9,604	-	-	6,890	35,875	42,765
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	-	(21)	-	-	-	(1,787)	129	(515)	-	-	(2,194)	55,302	53,108
Reversal of appropriations - net	24	-	-	-	-	-	-	-	-	-	(10,774)	10,774	-	-	-	-	-
Cash dividends and distributions:	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(12,297)	(12,297)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,613)	(9,613)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,183)	(3,183)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,430)	(3,430)
As at December 31, 2019	24	P490	P260	P120,501	P25,158	(P3,128)	(P405)	P1,533	(P2,966)	P11,367	P19,010	P67,398	(P28,457)	(P48,323)	P162,438	P439,622	P602,060

Forward

	Equity Attributable to Equity Holders of the Parent Company															Non-controlling Interests	Total Equity
	Note	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves					Retained Earnings		Treasury Stock		Total		
		Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred			
As at January 1, 2018, As adjusted		P490	P260	P120,501	P25,158	(P1,685)	P-	P1,395	(P1,693)	(P4,059)	P25,742	P46,262	(P28,457)	(P48,323)	P135,591	P362,444	P498,035
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	-	38	-	-	-	-	-	38	1,119	1,157
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	-	6	-	(35)	14	-	-	-	-	-	(15)	17	2
Net loss on cash flow hedges	40	-	-	-	-	-	(114)	-	-	-	-	-	-	-	(114)	(82)	(196)
Net gain on financial assets at fair value through other comprehensive income	12	-	-	-	-	-	-	84	-	-	-	-	-	-	84	41	125
Equity reserve for retirement plan	35	-	-	-	-	(309)	-	-	-	-	-	-	-	-	(309)	(61)	(370)
Other comprehensive income (loss)		-	-	-	-	(303)	(114)	49	52	-	-	-	-	-	(316)	1,034	718
Net income		-	-	-	-	-	-	-	-	-	-	7,000	-	-	7,000	37,860	44,860
Total comprehensive income (loss)		-	-	-	-	(303)	(114)	49	52	-	-	7,000	-	-	6,684	38,894	45,578
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	-	89	-	-	(21)	17,213	(863)	97	-	-	16,515	4,123	20,638
Appropriations - net	24	-	-	-	-	-	-	-	-	-	4,776	(4,776)	-	-	-	-	-
Cash dividends and distributions:	36																
Common		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(11,252)	(11,252)
Preferred		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,812)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,177)	(6,177)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	-	(878)	(878)
As at December 31, 2018	24	P490	P260	P120,501	P25,158	(P1,899)	(P114)	P1,444	(P1,662)	P13,154	P29,655	P48,583	(P28,457)	(P48,323)	P158,790	P378,342	P537,132

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(In Millions)

	<i>Note</i>	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P39,455	P77,480	P69,575
Adjustments for:				
Interest expense and other financing charges	30	50,694	53,730	42,766
Depreciation, amortization and others - net	28	30,029	38,157	55,129
Loss (gain) on sale of investments and property and equipment	5, 13, 15, 18	491	237	(252)
Interest income	31	(6,187)	(10,688)	(7,211)
Equity in net losses (earnings) of associates and joint ventures	11	(424)	(106)	289
Operating income before working capital changes		114,058	158,810	160,296
Changes in noncash current assets, certain current liabilities and others	38	8,401	13,552	(39,344)
Cash generated from operations		122,459	172,362	120,952
Interest and other financing charges paid		(55,959)	(59,439)	(39,008)
Income taxes paid		(16,043)	(21,873)	(22,983)
Net cash flows provided by operating activities		50,457	91,050	58,961
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	13	(63,837)	(66,819)	(47,325)
Increase in other noncurrent assets and others		(24,547)	(54,231)	(40,541)
Additions to investments and advances and investment in debt instruments	11, 12	(4,034)	(1,959)	(20,024)
Interest received		6,407	10,560	6,556
Cash and cash equivalents of consolidated (deconsolidated) subsidiary	5	1,053	(626)	-
Proceeds from sale of investments and property and equipment	5, 13, 15, 18	912	871	1,139
Dividends received	11, 12	16	27	46
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	38	-	(1,408)	(98,057)
Net cash flows used in investing activities		(84,030)	(113,585)	(198,206)

Forward

	<i>Note</i>	2020	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P842,619	P1,435,706	P1,032,344
Long-term borrowings		160,437	158,746	242,405
Payments of:				
Short-term borrowings		(871,066)	(1,445,924)	(999,627)
Long-term borrowings		(58,913)	(85,968)	(65,591)
Net proceeds from issuance of capital securities and preferred shares of subsidiaries	5	129,558	85,733	24,881
Redemption of capital securities and preferred shares of subsidiaries	5	(42,656)	(29,087)	(39,769)
Cash dividends and distributions paid to non-controlling shareholders		(29,305)	(28,450)	(27,503)
Payments of lease liabilities		(24,825)	(20,673)	(25,698)
Increase (decrease) in non-controlling interests and others		(1,539)	(811)	105
Proceeds from follow-on offering of common shares of a subsidiary		-	-	35,083
Net cash flows provided by financing activities		104,310	69,272	176,630
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(9,452)	(3,605)	(396)
NET INCREASE IN CASH AND CASH EQUIVALENTS				
		61,285	43,132	36,989
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
	7	286,677	243,545	206,556
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	7	P347,962	P286,677	P243,545

See Notes to the Consolidated Financial Statements.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 2008. On December 18, 2013, the Philippine Stock Exchange, Inc. (PSE) approved the application for the listing by way of introduction of all the common shares of Top Frontier. The shares were listed on the PSE on January 13, 2014.

The Parent Company has a corporate life of 50 years pursuant to its articles of incorporation. However, under the Revised Corporation Code of the Philippines which took effect on February 23, 2019, the Parent Company shall have a perpetual corporate life.

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

The Group is engaged in various businesses, including food and beverage, packaging, energy, mining, fuel and oil, infrastructure, cement and real estate property management and development.

The registered office address of the Parent Company is 5th Floor, ENZO Building, 399 Sen. Gil J. Puyat Avenue, Makati 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 Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on March 11, 2021.

Basis of Measurement

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

<u>Items</u>	<u>Measurement Basis</u>
Derivative financial instruments	Fair value
Financial assets at fair value through profit or loss (FVPL)	Fair value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation
Agricultural produce	Fair value less estimated costs to sell at the point of harvest

Functional and Presentation Currency

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

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries. The major subsidiaries include the following:

	<u>Percentage of Ownership Interest Held by the</u>				<u>Country of Incorporation</u>
	<u>Parent</u>		<u>Parent</u>		
	<u>Company</u>	<u>Subsidiaries</u>	<u>Company</u>	<u>Subsidiaries</u>	
	<u>2020</u>		<u>2019</u>		
San Miguel Corporation (SMC) and subsidiaries, namely:	65.99		65.99		Philippines
Food and Beverage Business:					
San Miguel Food and Beverage, Inc. (SMFB) (formerly San Miguel Pure Foods Company Inc. (SMPFC)) and subsidiaries [including San Miguel Mills, Inc. (SMMI) and subsidiaries, Magnolia Inc. and subsidiary, San Miguel Foods, Inc. (SMFI) and subsidiary, PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia), San Miguel Super Coffeemix Co., Inc., The Purefoods-Hormel Company, Inc. (PF-Hormel), and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investment (BVI) Limited) and subsidiary and San Miguel Pure Foods (VN) Co., Ltd.]		88.76	88.76		Philippines

Forward

	Percentage of Ownership Interest Held by the		Country of Incorporation
	Parent	Parent	
	Company	Subsidiaries	
	2020	2019	
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, and San Miguel Brewing International Limited (SMBIL) and subsidiaries, San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, San Miguel (Baoding) Brewery Co., Ltd. (SMBB), San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited and subsidiaries {including San Miguel Brewery Vietnam Company Limited ^(a) and PT. Delta Djakarta Tbk and subsidiary ^(a) }]			
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited and Global Beverages Holdings Limited]			
Packaging Business:			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries [including SMC Yamamura Fuso Molds Corporation (SYFMC) and Can Asia, Inc.]	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited ^(a) , San Miguel Yamamura Glass (Vietnam) Limited and San Miguel Yamamura Haiphong Glass Company Limited., Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd. and subsidiary, San Miguel Yamamura Plastic Films Sdn. Bhd. and San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, Foshan Cospak Packaging Co Ltd., SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Ltd (New Zealand), SMYBB Pty Ltd, SMYJ Pty Ltd and Wine Brothers Australian Pty Ltd}]	65.00	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC) ^(b)	-	65.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				Country of Incorporation
	Parent		Parent		
	Company	Subsidiaries	Company	Subsidiaries	
	2020	2019			
Energy Business					
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc., Universal Power Solutions, Inc. (UPSI, formerly Limay Power Generation Corporation), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), Central Luzon Premiere Power Corp., Lumiere Energy Technologies, Inc. (LETI, formerly Limay Premiere Power Corp. {LPPC}), PowerOne Ventures Energy Inc. (PVEI), SMCGP Masin Pte. Ltd. and subsidiaries, Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Albay Power and Energy Corp. (APEC), SMCGP Philippines Energy Storage Co. Ltd. (SPESC) and Mariveles Power Generation Corporation (MPGC) ^(c)	100.00	100.00			Philippines
Fuel and Oil Business					
SEA Refinery Corporation (SRC) and subsidiary: Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Overseas Ventures Insurance Corporation Ltd. (Ovincor) ^(a) , New Ventures Realty Corporation (NVRC) and subsidiaries, Petrogen Insurance Corporation (Petrogen) ^(d) , Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited, Petron Oil & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries, Petron Malaysia Refining & Marketing Bhd. (PMRMB), Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. (POMSB) (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited ^(a) and subsidiaries]	100.00	100.00			Philippines

Forward

	Percentage of Ownership Interest Held by the		Country of Incorporation
	Parent	Parent	
	Company	Subsidiaries	
	2020	2019	
Infrastructure Business			
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC) and subsidiaries ^(a) [including SMC TPLEX Holdings Company, Inc. (formerly Rapid Thoroughfares Inc.) and subsidiary, SMC TPLEX Corporation (SMCTC) (formerly Private Infra Dev Corporation), TPLEX Operations & Maintenance Corp., Trans Aire Development Holdings Corp. (TADHC), Vertex Tollways Devt. Inc. (Vertex), Universal LRT Corporation (BVI) Limited (ULC BVI), SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc., SMC Infraventures Inc. and subsidiary, Citra Intercity Tollways, Inc., Luzon Clean Water Development Corporation (LCWDC), Sleep International (Netherlands) Cooperatief U.A. and Wiselink Investment Holdings, Inc. {collectively own Cypress Tree Capital Investments, Inc. and subsidiaries including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}, Atlantic Aurum Investments B.V. (AIBV) and subsidiaries {including Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, Citra Central Expressway Corp. (CCEC) and Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corporation (SOMCO), MTD Manila Expressways Inc. (MTDME) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC)} and San Miguel Aerocity Inc. doing business under the name and style of "Manila International Airport" (SMAI)]	100.00	100.00	Philippines
Cement Business			
San Miguel Equity Investments Inc. (SMEII) and subsidiaries ^(a) , including Northern Cement Corporation (NCC) ^(a) , San Miguel Northern Cement, Inc. (SMNCI) and First Stronghold Cement Industries Inc. (FSCII)]	100.00	100.00	Philippines
Real Estate Business			
San Miguel Properties, Inc. (SMPI) and subsidiaries ^(a) [including SMPI Makati Flagship Realty Corp. and Bright Ventures Realty, Inc.]	99.96	99.95	Philippines
Davana Heights Development Corporation (DHDC) and subsidiaries	100.00	100.00	Philippines

Forward

	Percentage of Ownership Interest Held by the				Country of Incorporation
	Parent		Parent		
	Company	Subsidiaries	Company	Subsidiaries	
	2020		2019		
Others					
San Miguel International Limited and subsidiaries [including San Miguel Holdings Limited (SMHL) and subsidiaries (including SMYPIL)]	100.00		100.00		Bermuda
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries ^(a) , including SL Harbor Bulk Terminal Corporation (SLHBTC)	70.00		70.00		Philippines
SMC Stock Transfer Service Corporation ^(a)	100.00		100.00		Philippines
ArchEn Technologies Inc. ^(a)	100.00		100.00		Philippines
SMITS, Inc. and subsidiaries ^(a)	100.00		100.00		Philippines
San Miguel Integrated Logistics Services, Inc. (SMILSI) and subsidiary	100.00		100.00		Philippines
Anchor Insurance Brokerage Corporation (AIBC) ^(a)	58.33		58.33		Philippines
SMC Asia Car Distributors Corp. (SMCACDC) and subsidiaries ^(a)	65.00		65.00		Philippines
Mining Business:					
Clariden Holdings, Inc. (Clariden) and subsidiaries, namely:	100.00	-	100.00	-	Philippines
V.I.L. Mines, Incorporated (VMI), Asia-Alliance Mining Resources Corp. (AAMRC), Prima Lumina Gold Mining Corp. (PLGMC), Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited ^(a) and subsidiaries [including Pacific Nickel Philippines, Inc. (PNPI), Philnico Industrial Corporation (PIC) and Philnico Processing Corp. (PPC) (collectively the Philnico Group)]					

(a) The financial statements of these subsidiaries were audited by other auditors.

(b) Merged to SMYPC effective March 1, 2020 (Note 5).

(c) Consolidated to SMC Global effective January 25, 2019 as an asset acquisition (Note 11).

(d) Effective February 4, 2021, Petrogen became a 92.05% owned subsidiary of SMC (Note 41).

(e) Consolidated to SMEII effective August 20, 2020 (Note 5).

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent 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 Parent 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 Parent Company.

Non-controlling interests include the interests not held by the Parent Company in SMC, and its subsidiaries as follows: SMFB, SMYPC, SMYPIL, Petron, SMCTC, TADHC, AMTEX, AAIBV, SMPI, SMCSLC, AIBC and SMCACDC in 2020 and 2019 and SMYAC and SMNCI in 2019 (Note 5) and Clariden's subsidiaries: PPC and AAMRC in 2020 and 2019.

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

3. Significant Accounting Policies

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

Adoption of Amended Standards and Framework

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

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

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

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

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definition of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.
- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.
- Interest Rate Benchmark Reform (Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*). The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

 - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
 - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.
- *Separately Identifiable Risk Components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

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

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

The Group has early adopted the below PFRS effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19)-Related Rent Concessions (Amendments to PFRS 16, *Leases*). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:
 - the revised consideration is substantially the same or less than the original consideration;
 - the reduction in lease payments relates to payments due on or before June 30, 2021; and
 - no other substantive changes have been made to the terms of the lease.

The Group has applied the amendment retrospectively.

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

Standards Issued but Not Yet Adopted

A number of new and amended standards are effective for annual periods beginning after January 1, 2020 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
 - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
 - *Relief from Specific Hedge Accounting Requirements*. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
 - *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

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

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

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

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

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

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

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments 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.
 - Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

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

- Reference to the Conceptual Framework (Amendment to PFRS 3). The amendments:
 - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;
 - added a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
 - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
 - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
 - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
 - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

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

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, *Insurance Contracts*, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

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

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

Current versus Noncurrent Classification

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

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

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

Financial Instruments

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

The Group’s cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 7, 8, 10, 12, 18, 39 and 40).

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.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

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

The Group's investments in equity and debt instruments at FVOCI are classified under this category (Notes 10, 12, 39 and 40).

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category (Notes 10, 18, 39 and 40).

Financial Liabilities

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

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

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

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 20, 22, 39 and 40).

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

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

The Group's liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 19, 20, 21, 22, 34, 39 and 40).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost and investments in debt instruments at FVOCI.

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

Offsetting Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the “Hedging reserve” account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2020 and 2019 (Note 40).

Embedded Derivatives

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

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

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

The Group has embedded derivatives as at December 31, 2020 and 2019 (Note 40).

Inventories

Finished goods, goods in process, materials and supplies, raw land inventory and real estate projects are valued at the lower of cost and net realizable value.

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

Finished goods 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; finished goods also include unrealized gain (loss) on fair valuation of agricultural produce; costs are determined using the moving-average method.
Petroleum products (except lubes and greases) and crude oil	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the first-in, first-out method.
Lubes and greases, blending components and polypropylene	-	at cost, which includes duties and taxes related to the acquisition of inventories; costs are determined using the moving-average method.
Raw land inventory	-	at cost, which includes acquisition costs of raw land intended for sale or development and other costs and expenses incurred to effect the transfer of title of the property; costs are determined using the specific identification of individual costs.
Real estate projects	-	at cost, which includes acquisition costs of property and other costs and expenses incurred to develop the property; costs are determined using the specific identification of individual costs.
Materials, supplies and others	-	at cost, using the specific identification method, first-in, first-out method or moving-average method.
Coal	-	at cost, using the specific identification method and weighted 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.

Petroleum Products, Crude Oil, Lubes and Greases, and Aftermarket Specialties. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to complete and/or market and distribute.

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

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

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

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

Prepaid Expenses and Other Current Assets

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

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

Biological Assets and Agricultural Produce

The Group's biological assets include breeding stocks, growing hogs, poultry livestock and goods in process which are grouped according to their physical state, transformation capacity (breeding, growing or laying), as well as their particular stage in the production process.

The carrying amounts of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The Group's agricultural produce, which consists of grown broilers and marketable hogs harvested from the Group's biological assets, are measured at their fair value less estimated costs to sell at the point of harvest. The fair value of grown broilers is based on the quoted prices for harvested mature grown broilers in the market at the time of harvest. For marketable hogs, the fair value is based on the quoted prices in the market at any given time.

The Group, in general, does not carry any inventory of agricultural produce at any given time as these are either sold as live broilers and hogs or transferred to the different poultry or meat processing plants and immediately transformed into processed or dressed chicken and carcass.

Amortization is computed using the straight-line method over the following estimated productive lives of breeding stocks:

	<u>Amortization Period</u>
Hogs - sow	3 years or 6 births, whichever is shorter
Hogs - boar	2.5 - 3 years
Poultry breeding stock	38 - 42 weeks

Contract Assets

A contract asset is the right to consideration in exchange for goods or services that the Group has transferred to a customer that is conditioned on something other than the passage of time. The contract asset is transferred to receivable when the right becomes unconditional.

A receivable represents the Group's right to an amount of consideration that is unconditional, only the passage of time is required before payment of the consideration is due.

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 the consolidated statements of income.

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

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

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

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

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

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

- *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 carried 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 useful economic 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 the consolidated statements of income.

Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using the pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between the combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control.

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.

Investments in Shares of Stock of Associates and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

The Group's investments in shares of stock of associates and joint ventures are accounted for using the equity method.

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

	<u>Number of Years</u>
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	5 - 43
Refinery and plant equipment	4 - 34
Service stations and other equipment	3 - 33
Equipment, furniture and fixtures	2 - 55
Mine and mining properties	5 - 55
Leasehold improvements	2 - 50
	or term of the lease, whichever is shorter

Effective January 1, 2020, the Group adopted the units of production method (UOP) for the depreciation of refinery and plant equipment and certain power plant assets used in production of fuel, using expected capacity over the estimated useful lives of these assets (Note 13).

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

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

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

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

Leases

Policy Applicable from January 1, 2019

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

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

Group as Lessee

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

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

	Number of Years
Land	2 - 999
Buildings and improvements	2 - 15
Power plants	29 - 43
Service stations and other equipment	10 - 12
Machinery and equipment	2 - 7

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

Group as Lessor

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

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

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

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

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

Policy Applicable before January 1, 2019

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

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

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

Finance Lease

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

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

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

Operating Lease

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

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

Investment Property

Investment property consists of property held to earn rentals and/or for capital appreciation but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property, except for land, is measured at cost including transaction costs less accumulated depreciation and amortization and any accumulated impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Land is 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
Land and leasehold improvements	5 - 50 or term of the lease, whichever is shorter
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40
Right-of-use assets	2 - 50

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 the consolidated statements of income 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 the consolidated statements of income in the year in which the related expenditures are incurred.

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

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

Except for mineral rights and evaluation asset which is amortized using UOP method, amortization of other intangible assets with finite lives is computed using the straight-line method over the following estimated useful lives:

	Number of Years
Toll road concession rights	28 - 36
Airport concession rights	25 - 50
Power concession right	25
Water concession right	30
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of licenses and trademarks 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.

Licenses and trademarks 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 the consolidated statements of income when the asset is derecognized.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can provide them, and at what price; and (b) the grantor controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (i) infrastructure that the entities in the Group construct or acquire from a third party for the purpose of the service arrangement; and (ii) existing infrastructure to which the grantor gives the entities in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

The following are the concession rights covered by the service concession arrangements entered into by the Group:

- *Airport Concession Rights.*

Boracay Airport. The airport concession right pertains to the right granted by the Republic of the Philippines (ROP) to TADHC: (i) to operate the Caticlan Airport (the Airport Project or the Boracay Airport); (ii) to design and finance the Airport Projects; and (iii) to operate and maintain the Airport Projects during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

The airport concession right is carried at cost less accumulated amortization and any impairment in value. Amortization is computed using the straight-line method over the remaining concession periods and assessed for impairment whenever there is an indication that the asset may be impaired.

The airport concession right is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gain or loss from derecognition of the airport concession rights are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Manila International Airport. The airport concession right pertains to the right granted by the ROP to SMAI: (i) to operate; (ii) to design and finance; and (iii) to operate and maintain the Manila International Airport during the concession period.

The airport concession right represents the design and construction costs incurred to obtain the right during the construction period. It is carried at cost less accumulated amortization and any impairment in value. Subsequent expenditures or replacement of parts of it, are normally recognized in profit or loss as these are incurred to maintain the expected future economic benefits embodied in the airport concession right unless it can be demonstrated that the expenditures will contribute to the increase in revenue from airport and toll operations which meet the definition of an intangible asset (Note 4).

The airport concession right will be amortized on a straight-line basis over the period stated in the Concession Agreement which is approximately 50 years from issuance of the Certificate of Substantial Completion for the First Phase of the Project, and will be assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method are reviewed at least at each reporting year-end or more frequently when an indication of impairment arises during the reporting year. Changes in the term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period and method, as appropriate, and treated as changes in accounting estimates.

The airport concession right will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition as the concession right which is expected to be fully amortized by then and will be handed over to the ROP with no consideration.

- *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:
 - South Luzon Expressway (SLEX);
 - Ninoy Aquino International Airport (NAIA) Expressway;
 - Metro Manila Skyway (Skyway);
 - Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
 - Southern Tagalog Arterial Road (STAR); and
 - North Luzon Expressway (NLEX) - SLEX Link (Skyway Stage 3).

In exchange for the fulfillment of the Group's obligations under the Concession Agreement, the Group is given the right to operate the toll road facilities over the concession period. Toll road concession rights are recognized initially at the fair value of the construction services. Following initial recognition, the toll road concession rights are carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures or replacement of parts of it are normally recognized in the consolidated statements of income as these are incurred to maintain the expected future economic benefits embodied in the toll road concession rights. Expenditures that will contribute to the increase in revenue from toll operations are recognized as an intangible asset.

The toll road concession rights are amortized using the straight-line method over the term of the Concession Agreement. The toll road concession rights are assessed for impairment whenever there is an indication that the toll road concession rights may be impaired.

The toll road concession rights will be derecognized upon turnover to the ROP. There will be no gain or loss upon derecognition of the toll road concession rights as these are expected to be fully amortized upon turnover to the ROP.

- *Water Concession Right.* The Group's water concession right pertains to the right granted by the Metropolitan Waterworks and Sewerage System (MWSS) to LCWDC as the concessionaire of the supply of treated bulk water, planning, financing, development, design, engineering, and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the Province of Bulacan. The Concession Agreement is for a period of 30 years and may be extended for up to 50 years. The Group's water concession right represents the upfront fee, cost of design, construction and development of the Bulacan Bulk Water Supply Project. The service concession right is not yet amortized until the construction is completed.

The carrying amount of the water concession right is reviewed for impairment annually, or more frequently when an indication of impairment arises during the reporting year.

The water concession right will be derecognized upon turnover to MWSS. There will be no gain or loss upon derecognition of the water concession right, as this is expected to be fully amortized upon turnover to MWSS.

- *Power Concession Right.* The Group's power concession right pertains to the right granted by the ROP to SMC Global, through APEC, to operate and maintain the franchise of Albay Electric Cooperative, Inc. (ALECO). On January 24, 2014, SMC Global and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations under the Concession Agreement effective January 2, 2014. The power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

The power concession right is amortized using the straight-line method over the concession period which is 25 years and assessed for impairment whenever there is an indication that the asset may be impaired.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gain or loss from derecognition of the power concession right is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

- *MRT 7 Project.* The Group's capitalized project costs incurred for the MRT 7 Project is recognized as a financial asset as it does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services.

The Group can finance, design, test, commission, construct and operate and maintain the MRT 7 Project on behalf of the ROP in accordance with the terms specified in the Concession Agreement.

As payment, the ROP shall pay fixed amortization payment on a semi-annual basis in accordance with the scheduled payment described in the Concession Agreement (Note 34).

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the Concession Agreement or 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 estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

Mineral Rights and Evaluation Assets

The Group's mineral rights and evaluation assets have finite lives and are carried at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mineral rights and evaluation assets is recognized in the consolidated statements of income based on UOP method utilizing only recoverable coal, limestone and shale reserves as the depletion base. In applying the UOP method, amortization is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves.

The Group's mineral rights and evaluation asset is amortized using UOP method over 25 years.

Gain or loss from derecognition of mineral rights and evaluation assets is measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise of expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mineral rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Deferred Containers

Returnable bottles, shells and pallets 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 presented as “Customers’ deposit” under “Accounts payable and accrued expenses” account in the consolidated statements of financial position.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks 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 costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

Cylinder Deposits

The Group purchases liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to about 90% of the acquisition cost of the cylinders.

The Group maintains the balance of cylinder deposits at an amount equivalent to three days worth of inventory of its biggest dealers, but in no case lower than P200 at any given time, to take care of possible returns by dealers.

At the end of each reporting date, cylinder deposits, shown under “Other noncurrent liabilities” account in the consolidated statements of financial position, are reduced for estimated non-returns. The reduction is recognized directly in the consolidated statements of income.

Contract Liabilities

A deferred income is the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a deferred income is recognized when the payment is made or the payment is due (whichever is earlier). Deferred income is recognized as revenue when the Group performs under the contract.

Fair Value Measurements

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

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

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

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

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

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

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

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

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

Additional Paid-in Capital

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

Convertible Perpetual Securities (CPS)

CPS are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of CPS are recognized as a deduction from equity, net of tax.

Retained Earnings

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

Treasury Shares

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

Revenue

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

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

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

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

Revenue from Sale of Food and Beverage, Packaging, and Petroleum Products

Revenue is recognized at the point in time when control of the goods is transferred to the customer, which is normally upon delivery of the goods. Trade discounts and volume rebate do not result to significant variable consideration and are generally determined based on concluded sales transactions as at the end of each period. Payment is generally due within 30 to 60 days from delivery.

Revenue from sale of petroleum products is allocated between the consumer loyalty program and the other component of the sale. The allocation is based on the relative stand-alone selling price of the points. The amount allocated to the consumer loyalty program is deducted from revenue at the time points are awarded to the consumer. A deferred liability included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position is set up until the Group has fulfilled its obligations to supply the discounted products under the terms of the program or when it is no longer probable that the points under the program will be redeemed. The deferred liability is based on the best estimate of future redemption profile. All the estimates are reviewed on an annual basis or more frequently, where there is an indication of a material change.

Revenue from Power Generation and Trading

Revenue from power generation and trading is recognized over time when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Revenues from retail and other power-related services are recognized over time upon the supply of electricity to the customers. The Uniform Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable, and (h) interclass and life subsidies. Feed-in tariffs allowance, Value-added Tax (VAT) and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Revenue from Sale of Real Estate

Revenue from sale of real estate projects under pre-completion stage is recognized over time based on percentage of completion since the Group does not have an alternative use of the specific real estate property sold as the Group is precluded by the contract from redirecting the use of the property for a different purpose. Further, the Group has rights to payment for the development completed to date as the Group can choose to complete the development and enforce its rights to full payment under the contract even if the customer defaults on amortization payments. The Group determines the stage of completion based on surveys done by the Group's engineers and total costs to be incurred on a per unit basis. Revenue is recognized when 10% of the total contract price has already been collected.

Revenue from sale of completed real estate projects, and undeveloped land or raw land is recognized at a point in time. The Group recognizes in full the revenue and cost from sale of completed real estate projects and undeveloped land when 10% or more of the contract price is received.

If the transaction does not qualify for revenue recognition, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of revenue, payments received from customers are presented under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Cancellation of real estate sales is accounted for on the year of forfeiture. The repossessed real estate projects are recognized at fair value less cost to repossess. Any gain or loss on cancellation is recognized as part of "Other income (charges) - net" account in the consolidated statements of income.

Revenue from Service Concession Arrangements

Revenue from toll operations is recognized upon the use by the road users of the toll road and is paid by way of cash or charge against Radio Frequency Identification account. Toll fees are set and regulated by the Toll Regulatory Board (TRB).

Landing, take-off and parking fees are recognized as the services are rendered over time which is the period from landing up to take-off of aircrafts.

Terminal fees are recognized upon receipt of fees charged to passengers for the use of airport and port terminals.

Revenue from port cargo handling and ancillary services is recognized as the services are rendered over time based on the quantity of items handled during the period multiplied by a predetermined rate.

Revenue from construction contracts is recognized over time based on the percentage of completion, measured by reference to the proportion of costs incurred to date to estimated total costs for each contract.

Revenue from Sale of Other Services

Revenue from freight services is recognized as the services are rendered over time based on every voyage contracted with customers during the period multiplied by a predetermined rate.

Revenue from Other Sources

Revenue from Agricultural Produce. Revenue from initial recognition of agricultural produce is measured at fair value less estimated costs to sell at the point of harvest. Fair value is based on the relevant market price at the point of harvest.

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

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

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

Gain or Loss on Sale of Investments in Shares of Stock. Gain or loss is recognized when the Group disposes of its investment in shares of stock of a subsidiary, associate and joint venture and financial assets at FVPL. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount, including the carrying amount of goodwill, if any.

Costs and Expenses

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

Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

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

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

Foreign Operations

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

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" 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 the 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 "Translation reserve" 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 using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

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

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

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

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

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

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

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

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.

Non-cash Distribution to Equity Holders of the Parent Company and Assets Held for Sale

The Group classifies noncurrent assets, or disposal groups comprising assets and liabilities as held for sale or distribution, if their carrying amounts will be recovered primarily through sale or distribution rather than through continuing use. The assets or disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell or distribute, except for some assets which are covered by other standards. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in the consolidated statements of income. Gains are not recognized in excess of any cumulative impairment losses.

The criteria for held for sale or distribution is regarded as met only when the sale or distribution is highly probable and the asset or disposal group is available for immediate sale or distribution in its present condition. Actions required to complete the sale or distribution should indicate that it is unlikely that significant changes to the sale or distribution will be made or that the decision on distribution or sale will be withdrawn. Management must be committed to the sale or distribution within one year from date of classification.

The Group recognizes a liability to make non-cash distributions to equity holders of the Parent Company when the distribution is authorized and no longer at the discretion of the Parent Company. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurements recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets to be distributed is recognized in the consolidated statements of income.

Intangible assets, property, plant and equipment and investment property once classified as held for sale or distribution are not amortized or depreciated. In addition, equity accounting of equity-accounted investees ceases once classified as held for sale or distribution.

Assets and liabilities classified as held for sale or distribution are presented separately as current items in the consolidated statements of financial position.

Discontinued Operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as “Income after income tax from discontinued operations” in the consolidated statements of income.

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

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

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

Operating Segments

The Group’s operating segments are organized and managed separately according to the nature of the products and services provided, 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 Chief Executive Officer (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. 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 and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

Measurement of Biological Assets. Breeding stocks are carried at accumulated costs net of amortization and any impairment in value while growing hogs, poultry livestock and goods in process are carried at accumulated costs. The costs and expenses incurred up to the start of the productive stage are accumulated and amortized over the estimated productive lives of the breeding stocks. The Group uses this method of valuation since fair value cannot be measured reliably. The Group's biological assets or any similar assets prior to point of harvest have no active market available in the Philippine poultry and hog industries. Further, the existing sector benchmarks are determined to be irrelevant and the estimates (i.e., revenues due to highly volatile prices, input costs and efficiency values) necessary to compute for the present value of expected net cash flows comprise a wide range of data which will not result in a reliable basis for determining the fair value.

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

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

Finance Lease - Group as Lessee (Prior to the Adoption of PFRS 16). In accounting for its Independent Power Producer (IPP) Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

MNHPI and MPPCL also entered into leases of equipment and land, respectively, needed for business operations.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants, land and equipment. Accordingly, the Group accounted for the agreements as finance lease and recognized the power plants, land and equipment and lease liabilities at the present value of the agreed monthly payments (Notes 13 and 34).

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

Rent expense recognized in the consolidated statements of income amounted to P5,253 in 2018 (Notes 26, 27 and 34).

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

Rent income recognized in the consolidated statements of income amounted to P1,382, P1,346 and P785 in 2020, 2019 and 2018, respectively (Notes 32 and 34).

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

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

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

The Group's lease liabilities amounted to P122,187 and P149,837 as at December 31, 2020 and 2019, respectively (Notes 34, 38, 39 and 40).

Identification of Distinct Performance Obligation. The Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. The Group has determined that it has distinct performance obligations other than the sale of petroleum products such as the provision of technical support and lease of equipment to its customers and allocates the transaction price into these several performance obligations.

Applicability of Philippine Interpretation IFRIC 12. In accounting for the Group's transactions in connection with its Concession Agreement with the ROP, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the interpretation since it specifically indicated that the ROP will regulate what services the Group must provide, at what prices these services will be offered, and that at the end of the concession period, the entire infrastructure, as defined in the Concession Agreement, will be turned over to the ROP (Note 34).

Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the Group's obligations under the Concession Agreement, may either be an intangible asset in the form of a right (license) to charge fees to users or financial asset in the form of an unconditional right to receive cash or another financial asset. Judgment was further exercised by management in determining the cost components of acquiring the right. Further reference to the terms of the Concession Agreement (Note 34) was made to determine such costs.

a. *Airport Concession Rights*

Boracay Airport. The airport concession right consists of: (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 years and its subsequent amortization.

- (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost-to-cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.
- (ii) The present value of the IRO is recorded under construction in progress (CIP) - airport concession arrangements and transferred to the related intangible assets upon completion of the Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time will significant maintenance of the Boracay Airport would commence.
- (iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

Manila International Airport. The airport concession right consists of the pre-design costs, consultancy fees and other directly attributable costs incurred in the development of the project.

- b. *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway; (iii) Skyway; (iv) TPLEX; and (v) STAR.

Pursuant to the Concession Agreements, any stage or phase or ancillary facilities thereof, of a fixed and permanent nature, shall be owned by the ROP.

- c. *Water Concession Right.* The Group's water concession right represents the right to collect charges from water service providers and third party purchasers availing of a public service, grant control or regulate the price and transfer significant residual interest of the water treatment facilities at the end of the Concession Agreement.
- d. *Power Concession Right.* The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.
- e. *MRT 7 Project.* The Concession Agreement related to the MRT 7 Project does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the obligation under the Concession Agreement, is a financial asset in the form of an unconditional right to receive cash or another financial asset.

Difference in judgment in respect to the accounting treatment of the transactions would materially affect the assets, liabilities and operating results of the Group.

Recognition of Profit Margin on the Airport and Toll Road Concession Arrangements. The Group has not recognized any profit margin on the construction of the airport and toll road projects as it believes that the fair value of the intangible asset reasonably approximates the cost. The Group also believes that the profit margin of its contractors on the rehabilitation of the existing airport and its subsequent upgrade is enough to cover any difference between the fair value and the carrying amount of the intangible asset.

Recognition of Revenue from Sale of Real Estate and Raw Land. The Group recognizes its revenue from sale of real estate projects and raw land in full when 10% or more of the total contract price is received and when development of the real estate property is 100% completed. Management believes that the revenue recognition criterion on percentage of collection is appropriate based on the Group's collection history from customers and number of back-out sales in prior years. Buyer's interest in the property is considered to have vested when the payment of at least 10% of the contract price has been received from the buyer and the Group ascertained the buyer's commitment to complete the payment of the total contract price.

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 rentals 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 investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares of TADHC, particularly on mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of "Accounts payable and accrued expenses" account and "Other noncurrent liabilities" account in the consolidated statements of financial position as at December 31, 2020 and 2019, respectively (Notes 20 and 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. The Group 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 Group 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.

In 2019, management assessed that the Group has lost its control over MNHPI through the increase in the shareholdings of non-controlling interest (Note 5).

Classification of Joint Arrangements. The Group has determined that it has rights only to the net assets of the joint arrangements based on the structure, legal form, contractual terms and other facts and circumstances of the arrangement. As such, the Group classified its joint arrangements in Angat Hydropower Corporation (Angat Hydro), KWPP Holdings Corporation (KWPP) and MNHPI as joint ventures (Note 11).

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

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

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 40.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 43).

Estimates and Assumptions

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

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

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

Trade receivables written off amounted to P138 and P570 in 2020 and 2019, respectively (Note 8). The allowance for impairment losses on trade receivables amounted to P4,549 and P4,239 as at December 31, 2020 and 2019, respectively. The carrying amount of trade receivables amounted to P71,145 and P83,832 as at December 31, 2020 and 2019, respectively (Note 8).

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

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

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

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

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

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

	<i>Note</i>	2020	2019
Other Financial Assets at Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	7, 39	P346,178	P283,727
Other current receivables - net (included under "Trade and other receivables - net" account)	8	49,820	49,075
Investment in debt instruments at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	10, 12, 39, 40	255	257
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	18, 39, 40	25,058	25,739
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	10, 18, 39, 40	7,980	12,514

The allowance for impairment losses on other current receivables, included as part of "Trade and other receivables - net" account and noncurrent receivables and deposits included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position, amounted to P9,219 and P606, respectively, as at December 31, 2020, and P8,476 and P724, respectively, as at December 31, 2019 (Notes 8 and 18).

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 9, 10, 11, 12, 15, 16, 17, 18, 20, 35 and 40.

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

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

The write-down of inventories amounted to P1,826 and P2,141 as at December 31, 2020 and 2019, respectively (Note 9).

The carrying amount of inventories amounted to P102,828 and P127,468 as at December 31, 2020 and 2019, respectively (Note 9).

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

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

Except for refinery and plant equipment and certain power plant assets used in production of fuel, there is no change in estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers based on management's review at the reporting date.

Starting January 1, 2020, the Group adopted the UOP method of accounting for depreciation of refinery and plant equipment and certain power plant assets used in production of fuel. The UOP method closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P556,164 and P508,275 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P237,317 and P215,216 as at December 31, 2020 and 2019, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P192,181 and P197,355 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P19,626 and P12,220 as at December 31, 2020 and 2019, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P62,378 and P53,536 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of investment property amounted to P17,410 and P16,013 as at December 31, 2020 and 2019, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P19,749 and P20,806 as at December 31, 2020 and 2019, respectively. Accumulated amortization of deferred containers amounted to P13,178 and P11,526 as at December 31, 2020 and 2019, respectively (Note 18).

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

Intangible assets with finite useful lives, net of accumulated amortization, included as part of "Other intangible assets - net" account in the consolidated statements of financial position amounted to P181,951 and P161,337 as at December 31, 2020 and 2019, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P43,956 and P39,111 as at December 31, 2020 and 2019, respectively (Note 17).

Estimated Useful Lives of Intangible Assets - Concession Rights. The Group estimates the useful lives of airport, toll road, port, power and water concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as at the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power and water concession rights amounted to P160,477 and P143,847 as at December 31, 2020 and 2019, respectively (Note 17).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks 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 licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P120,463 and P120,392 as at December 31, 2020 and 2019, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P94,480 and P94,589 as at December 31, 2020 and 2019, respectively (Note 17).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P53 in 2019 (Notes 17 and 38).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with “coal resource” estimates, profitability of mining the coal during a defined operating period or “mine-life” is a necessary attribute of “coal reserve”.

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into: (i) positive, (ii) probable and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holders and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans. Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revisions once additional information becomes available.

Pursuant to the Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves which was adopted by the PSE and SEC and Department of Environment and Natural Resources (DENR) Administrative Order No. 2010-09 (Providing for the Classification and Reporting Standards of Exploration Results, Mineral Resources and Ore Reserves), all mineral resource and mineral/ore reserves report shall be prepared and signed by a person accredited by the relevant professional organization as a Competent Person.

Exploration activities are currently ongoing in different projects of Clariden. Exploration drilling planned in PNPI aims to upgrade the mineral resource and reserves previously identified, while in other areas, the objective is to define the quality and quantity of the mineral deposits.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group’s assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities related to coal are all in the exploratory stages as at December 31, 2020. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as at December 31, 2020 and 2019.

Deferred exploration and development costs included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P1,061 and P1,050 as at December 31, 2020 and 2019, respectively (Notes 18 and 34).

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

Deferred tax assets amounted to P21,262 and P18,431 as at December 31, 2020 and 2019, respectively (Note 23).

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

Accumulated impairment losses on property, plant and equipment, right-of-use assets and investment property, other intangible assets with finite useful lives and deferred containers amounted to P13,793 and P13,350 at December 31, 2020 and 2019, respectively (Notes 13, 14, 15, 17 and 18).

The combined carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P1,054,574 and P985,982 as at December 31, 2020 and 2019, respectively (Notes 11, 13, 14, 15, 16, 17 and 18).

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 35 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 P31,631 and P33,277 as at December 31, 2020 and 2019, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from refinery, power plants, leased service stations, terminals, blending plant and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 3.21% to 12.64% and 4.165% to 12.64% as at December 31, 2020 and 2019, respectively, depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,735 and P2,217 as at December 31, 2020 and 2019, respectively (Note 22).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as at December 31, 2020 and 2019 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years discounted using the 8% and 9% internal borrowing rates in 2020 and 2019, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P133 and P144 as at December 31, 2020 and 2019, respectively (Note 17).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P13 and P74 in 2020 and P9 and P74 in 2019, respectively (Notes 20 and 22).

Present Value of Mine Rehabilitation Obligation (MRO) and Decommissioning. The Group has MRO arising from mining operations of NCC and PNPI. Determining MRO requires estimation of the costs of dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closing plant and waste sites, and restoring, reclaiming and revegetating affected areas. The estimated rehabilitation costs are then discounted using discount rates that reflect current market assessments and the risks specific to the liability. Discount rates used by the Group as at December 31, 2020 and 2019 were 7.04% to 8.92% and 8.92%, respectively. The ultimate cost of MRO and decommissioning is uncertain, and cost estimates can vary in response to many factors including estimates of the extent and costs of rehabilitation activities, changes in the relevant legal requirements, emergence of new restoration techniques or experience, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing of expenditure can also change in response to changes in quarry reserves or production rates. These uncertainties may result in future actual expenditure different from the amounts currently provided. As a result, there could be significant adjustments in provision for MRO and decommissioning, which would affect future financial results.

Provision for MRO and decommissioning presented as part of "Other noncurrent liabilities" account amounted to P65 and P19 as at December 31, 2020 and 2019, respectively (Note 22).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period. Construction revenue and construction costs, reported as part of "Other income (charges) - net" account in the consolidated statements of income, amounted to P22,747, P25,386, P23,062 as at December 31, 2020, 2019 and 2018, respectively (Note 32).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every 5 to 12 years and 5 to 10 years as at December 31, 2020 and 2019, respectively, or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax rate, ranging from 1.7% to 3.97% and 3.51% to 4.5% as at December 31, 2020 and 2019, respectively, that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P656 and P566 as at December 31, 2020 and 2019, respectively (Note 22).

The current portion included as part of “Accounts payable and accrued expenses” account amounted to P412 and P178 as at December 31, 2020 and 2019, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Parent Company’s investments:

SMC

- Issuance of 533,333,334 Series “2” Preferred Shares - Subseries J and K

On September 30, 2020, the BOD of PSE approved the listing application of SMC of up to 533,333,334 Series “2” preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 266,666,667 Series “2” preferred shares (the First Tranche) with a par value of P5.00 per share and an offer price of P75.00 per share. The SEC approved and rendered effective the shelf registration of the Shelf Registered Shares on October 9, 2020 and issued a permit to sell the First Tranche on the same date.

SMC offered the First Tranche consisting of: (i) 133,333,400 Series “2-J” preferred shares; and (ii) an Oversubscription Option of up to 133,333,267 Series “2-J” preferred shares at an offer price of P75.00 per share. The First Tranche consisting of 266,666,667 Series “2-J” Preferred Shares was issued on October 29, 2020, which was also the date when the First Tranche was listed on the PSE. SMC offered a Second Tranche of the Shelf Registered Shares, consisting (i) 133,333,400 Subseries “2-K” preferred shares; and (ii) an Oversubscription Option of up to 133,333,267 Subseries “2-K” preferred shares at an offer price of P75.00 per share. The Second Tranche consisting of 183,904,900 Series “2-K” was issued and listed on the PSE on December 10, 2020.

Dividend rates for Subseries “2-J” and “2-K” are 4.75% and 4.50% per annum, respectively.

- Redemption of Preferred Shares

a) Series “1” Preferred Shares

On April 14, 2020, SMC redeemed its outstanding 279,406,667 Series “1” preferred shares issued on April 14, 2015 at a redemption price of P75.00 per share or P20,956. The redemption was approved by the BOD of SMC on March 12, 2020.

b) Series “2” Preferred Shares

On September 23, 2019, SMC redeemed its 90,428,200 Subseries “2-B” preferred shares at a redemption price of P75.00 per share. SMC paid P6,782 to the holders of Subseries “2-B” preferred shares.

On September 21, 2020, SMC redeemed its 89,333,400 Subseries “2-D” preferred shares at a redemption price of P75.00 per share plus any unpaid cash dividends. SMC paid P6,700 to the holders of Subseries “2-D” preferred shares.

- Issuance of Capital Securities

- a) Senior Perpetual Capital Securities (SPCS)

On December 5, 2019, the BOD of SMC approved the establishment of a medium term note programme amounting to US\$3,000 (the “Programme”), and the issuance of US\$500 perpetual securities out of the Programme. The Programme and the initial issuance of perpetual securities will be both registered at the SGX-ST.

The Programme will be available for a medium term and will allow SMC to tap the financial market for funding through the issuance of securities, including but not limited to corporate notes, bonds, and perpetual securities and other similar instruments at different currencies (other than Philippine peso). The establishment of the Programme will give SMC ready access to funding and will give SMC the flexibility to fund its contemplated investments and projects such as the MRT-7 construction, the Manila International Airport, as well as the refinancing of its existing obligations and for other general corporate purposes. All instruments and securities that will be issued out of the Programme shall be exempt securities and shall not be required to be registered with the PSE.

On July 29, 2020, SMC issued US\$500 SPCS at an issue price of 100%, with an initial rate of distribution of 5.5% per annum. The securities were issued under SMC’s US\$3,000 Medium Term Note and Securities Programme. The net proceeds will be used to finance investments and various projects, and for general corporate purposes.

- b) Redeemable Perpetual Securities (RPS)

On various dates in June and July 2020, SMC issued a total of P14,810 RPS at an issue price of 100%, with an initial rate of distribution of 5% per annum.

On September 29 and October 19, 2020, SMC purchased and cancelled a total of P10,810 RPS, pursuant to the agreement with the holders of the said RPS who accepted the offer by SMC to purchase the RPS. As a result of the purchase, the RPS were cancelled in accordance with the terms and conditions of the purchase agreement between the parties.

The outstanding P4,000 RPS issued to a related party, has an initial rate of distribution of 5% per annum, payable every January 1, April 1, July 1 and October 1 of each year.

On August 4, 2020, SMC issued US\$100 RPS to a related party at an issue price of 100%, with an initial rate of distribution of 2.5% per annum, payable every February 5, May 5, August 5 and November 5 of each year.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears. SMC has the right to defer this distribution under certain conditions.

The net proceeds of RPS were used by SMC for general corporate requirements.

Food and Beverage

- SMFB

On March 12, 2020, SMFB redeemed its 15,000,000 outstanding perpetual Series “2” Preferred Shares issued on March 12, 2015 at a redemption price of P1,000.00 per share or P15,000, plus any accumulated unpaid cash dividends. The redemption was approved by the BOD of SMFB on February 3, 2020.

- SMBB

On March 10, 2020, SMBIL and San Miguel (China) Investment Company, Limited, the shareholders of SMBB, passed a resolution approving the dissolution and liquidation of SMBB. SMBB has stopped operations and production activities and started the liquidation process from the date of the resolution (Note 32).

Energy

- SMC Global

- a) Issuance of SPCS

SMC Global issued and listed on the Singapore Exchange Securities Trading Ltd. (SGX-ST), the following SPCS:

Date of Issuance	Initial Rate of Distribution Per Annum	Issue Price	Amount in US Dollar	Amount in Philippine Peso
April 25, 2019	6.5%	100%	US\$500	P25,611
July 3, 2019	6.5%	102.052%	300	15,440
November 5, 2019	5.95%	100%	500	24,837
January 21, 2020	5.7%	100%	600	30,171
October 21, 2020	7.0%	100%	400	19,141
December 15, 2020	7.0%	102.457%	350	17,000
			US\$2,650	P132,200

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of SMC Global with no fixed redemption date. The SPCS are redeemable in whole, but not in part, at the option of SMC Global, on step-up date or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds from the issuance of SPCS in 2019 were used for the redemption of the US\$300 Undated Subordinated Capital Securities (USCS) in November 2019, repayment of indebtedness, capital expenditures and investments in power-related assets, the development of the Battery Energy Storage Systems (BESS) projects and general corporate purposes.

The net proceeds in 2020 will be used for the funding requirements of the development and completion of the BESS projects, capital expenditures and investments in liquefied natural gas facilities and related assets, refinancing or redemption of existing or expiring commitments whether debt or perpetual securities and general corporate purposes.

b) Redemption of USCS

On November 7, 2019, SMC Global completed the redemption of the US\$300 USCS issued on May 7, 2014 (the "First Securities") pursuant to the terms and conditions of the First Securities. The redemption was made after the issuance of a notice to the holders of the First Securities dated September 27, 2019. The redemption price of the First Securities includes the principal amount and any accrued but unpaid distributions up to (but excluding) the step-up date.

The difference between the settlement amount and the carrying amount of the USCS in 2019 amounting to P2,073 was recognized as part of the "Equity Reserves" account in the consolidated statement of financial position as at December 31, 2019.

The First Securities was redeemed using, in part, the proceeds of the US\$500 SPCS issued on April 25, 2019.

Fuel and Oil

▪ Petron

a) Issuance of Series 3 Perpetual Preferred Shares

On May 31, 2019, the SEC issued to Petron a permit for public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the "Series 3 Preferred Shares") at an issue price of P1,000.00 per share.

On June 25, 2019, Petron issued and listed on the PSE, 20,000,000 Series 3 Preferred Shares. The net proceeds from the issuance were used for the repayment of Petron's outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date.

b) Redemption of Series 2A Preferred Shares

On November 4, 2019, Petron redeemed its 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share. The redemption was approved by the BOD of Petron on March 12, 2019.

- Petrofuel Logistics Inc. (PLI)

On August 28, 2020, Petron signed a Share Purchase Agreement with SMILSI for the sale by Petron of its 2,010,000 shares in PLI, equivalent to 100% equity interest in the outstanding common shares of PLI, for a total consideration of P230.

The transfer was accounted for as a transaction under common control using the pooling of interest method where the entity was controlled by the Parent Company before and after the transaction and the control was not transitory.

Infrastructure

- SMHC

On September 24, 2019, SMHC and SMC, executed a Subscription Agreement to subscribe to an additional 13,764,633 common shares for a total subscription price of P20,647 or P1,500.00 per common share. SMC initially paid P16,382 in 2019, while the remaining balance amounting to P4,265 was paid in 2020.

On November 27, 2020, the BOD and stockholders of SMHC approved the additional increase in its authorized capital stock from P71,500 divided into 71,500,000 common shares to P91,500 divided into 91,500,000 common shares, both with a par value of P1,000.00 per common share. On the same date, SMC in a Subscription Agreement, subscribed to 10,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P15,000 or P1,500.00 per common share. In 2020, SMC paid P6,606.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 18, 2020 and was approved on January 7, 2021.

- MNHPI

The Philippine Competition Commission (PCC) and Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI) on March 14 and April 26, 2019, respectively. With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while SMHC's shareholdings in MNHPI remained at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC and was subsequently classified as a joint venture (Note 11). The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as at April 26, 2019 and recognized the investment at fair market value amounting to P2,600. As a result, the Group recognized a gain amounting to P727, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 4).

The following summarizes the accounts derecognized at the deconsolidation date:

	Note	2019
Cash and cash equivalents		P621
Trade and other receivables - net		548
Inventories		280
Prepaid expenses and other current assets		169
Property, plant and equipment - net		38
Goodwill	17	325
Other intangible assets - net	17	11,214
Deferred tax assets		56
Other noncurrent assets - net		103
Loans payable		(3,568)
Accounts payable and accrued expenses		(1,493)
Income and other taxes payable		(100)
Lease liabilities (including current portion)		(44)
Long-term debt		(300)
Other noncurrent liabilities		(2,499)
Non-controlling interest		(3,061)
Equity reserves		(416)
Total		P1,873

Packaging

- Merger of SMYAC and SMYPC

On September 12, 2019, the BOD of SMC approved the following: (i) purchase by SMC of 5% of SMYAC, (ii) merger of SMYAC with SMYPC, where SMYPC will be the surviving entity; and (iii) delegation of authority to management to determine the relevant terms and conditions of any deed, agreement or document required to give effect to the proposed transactions.

On September 19, 2019, the merger was approved by the respective BOD and stockholders of SMYPC and SMYAC. On the same date, the BOD and stockholders of SMYPC also resolved and approved to increase its authorized capital stock from P11,000 divided into 11,000,000 common shares to P20,000 divided into 20,000,000 common shares, both with a par value of P1,000.00 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on October 25, 2019 and was approved on February 24, 2020.

On October 23, 2019, SMC executed a Deed of Absolute Sale of Shares with Nihon Yamamura Glass Ltd. (NYG) to acquire 850,000 shares in SMYAC, consisting of 350,000 common shares and 500,000 preferred shares for a total consideration of P300, representing additional 5% ownership interest. SMC paid P300. As a result of the acquisition, SMC and NYG's equity interest in SMYAC became 65% to 35%, respectively.

On October 23 and December 20, 2019, the Plan of Merger and Articles of Merger, respectively, were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC was transferred to and absorbed by SMYPC.

On October 31, 2019, SMC and SMYPC executed a subscription agreement whereby SMC agreed to subscribe to 3,901,011 common shares from the increase in authorized capital stock of SMYPC.

On February 24, 2020, the SEC approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger.

On March 1, 2020, the effective date of the merger, SMYPC issued 3,901,011 and 2,100,544 common shares to SMC and NYG, respectively, for a total amount of P6,002 as consideration for the net assets of SMYAC pursuant to the terms of the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of SMYPC. With the completion of the merger, SMC and NYG retained their respective ownership in SMYPC of 65% and 35%, respectively.

On July 7, 2020, the application for a tax-free exchange certification/ruling on the merger was filed with the Bureau of Internal Revenue (BIR) and is still pending as at March 11, 2021.

The transfer was accounted for as a transaction under common control using the pooling of interest method where the entity was controlled by the Parent Company before and after the transaction and the control was not transitory.

Real Estate

- SMPI

On December 23, 2019, SMPI and SMC executed a Subscription Agreement to subscribe to an additional 57,500,000 common shares of SMPI for a total subscription price of P1,150 or P20.00 per common share. The subscription price was fully paid in 2019.

On various dates in 2020, SMPI and SMC executed Subscription Agreements to subscribe to a total of 241,393,750 common shares of SMPI for a total subscription price of P4,828 or P20.00 per common share. In 2020, SMC paid P4,092.

- DHDC

On January 8, 2019, SMC and DHDC executed a Subscription Agreement to subscribe to an additional 1,344,950,000 common shares of DHDC for a total subscription price of P2,690 or P2.00 per common share. The subscription price was fully paid in 2019.

On May 4 and November 26, 2020, DHDC and SMC executed Subscription Agreements to subscribe to a total of 90,500,000 common shares for a total subscription price of P181 or P2.00 per common share, which was fully paid in 2020.

Others

▪ Consolidation of NCC

On June 12, 2020, the BOD and stockholders of NCC approved the amendment of the Articles of Incorporation of NCC relating to the reclassification of 194,000,000 common shares to Series "2" Preferred Shares, the option of the stockholders of the common shares to convert to Series "2" Preferred Shares and renaming the existing 3,000,000 preferred shares of NCC to Series "1" Preferred Shares. On August 6, 2020, SEC approved the amendment of the Articles of Incorporation of NCC to reflect the amendments.

On August 24, 2020, the stockholders of NCC which collectively own 65% of the common shares, exercised the option to convert their common shares to a total of 194,000,000 Series "2" Preferred Shares. SMEII did not exercise its option to convert its common shares to Series "2" Preferred Shares. With the conversion of the common shares, SMEII gained control of NCC, exercising 100% of voting rights.

NCC is primarily engaged in the business of manufacturing, developing, processing, exploiting, buying, selling, or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

As a result, SMEII recognized its investment in NCC at fair market value and the net assets of NCC was consolidated to SMEII as at August 24, 2020.

The following summarizes the recognized amount of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2020
Assets		
Cash and cash equivalents		P1,053
Trade and other receivables - net		82
Inventories		1,526
Prepaid expenses and other current assets		253
Property, plant and equipment - net	<i>13</i>	10,009
Right-of-use assets - net	<i>14</i>	35
Other intangible assets - net	<i>17</i>	4,626
Deferred tax assets	<i>23</i>	260
Other noncurrent assets - net		258
Liabilities		
Accounts payable and accrued expenses		(1,162)
Income and other taxes payable		(158)
Lease liabilities (including current portion)	<i>38</i>	(40)
Other noncurrent liabilities		(182)
Total Identifiable Net Assets at Fair Value		P16,560

The fair value of the identifiable assets and liabilities in relation to the consolidation of NCC are based on provisional amounts as at August 20, 2020, which is allowed under PFRS 3 within 12 months from the consolidation date.

The Group remeasured its equity interest held before business combination resulting in the recognition of gain amounting to P894, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 32).

A gain was recognized as a result of the business combination as follows:

	Note	2020
Equity interest held before business combination	12	P4,902
Gain on fair valuation of investment	32	894
Non-controlling interest		10,001
Total identifiable net assets at fair value		(16,560)
Gain	32	(P763)

The gain recognized from the business combination was presented as part of "Other income (charges) - net" account in the consolidated statements of income (Note 32).

The fair value of trade and other receivables amounted to P82. The gross amount of the receivables is P87, of which P5 is expected to be uncollectible as at the acquisition date (Note 8).

From the date of consolidation, NCC has contributed P2,192 and P303 of revenues and net income to the Group's results.

If the foregoing acquisition have occurred on January 1, 2020, management estimates that it would have increased consolidated revenue and consolidated net income by P5,914 and P768, respectively.

On March 3, 2021, the BOD and stockholders of NCC and SMNCI approved the plan of merger of NCC and SMNCI, with NCC as the surviving corporation in accordance with the Revised Corporation Code of the Philippines. As at March 11, 2021, NCC has yet to file the proposed merger with the SEC.

- SMEII

- a) Additional Subscriptions

On various dates in 2020, SMEII and SMC executed Subscription Agreements to subscribe to a total of 3,063,600,000 common shares of SMEII for a total subscription price of P4,595 or P1.50 per share, which was fully paid in 2020.

- b) Issuance of RPS

On July 2, 2020, SMEII issued P1,500 RPS at an issue price of 100%, with an initial rate of distribution of 6%. The net proceeds were used for capital expenditures of the Cement business.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears every July 2, October 2, January 2 and April 2 of each year. SMEII has the right to defer this distribution under certain conditions.

- SMNCI

On various dates in 2019, SMEII and SMNCI executed Subscription Agreements for the subscription of a total additional 4,066,670,000 common shares out of the unissued capital stock of SMNCI for a total subscription price of P6,100 or P1.50 per share. As at December 31, 2019, the Group's effective ownership interest in SMNCI is 92.58%.

On June 19, 2020, SMEII entered into a Deed of Absolute Sale of Shares with NCC covering the sale by the latter of its 750,000,000 common shares of SMNCI representing 10.76% direct equity interest, for a total consideration of P750. As a result, SMNCI became a wholly-owned subsidiary of SMEII.

The transaction was accounted for as an equity transaction as it only resulted to an increase in the ownership interest of SMEII in SMNCI.

In 2020, SMEII subscribed to a total additional 933,330,000 common shares of SMNCI out of the unissued capital stock for a total subscription price of P1,400 or P1.50 per share. The subscription price was paid in 2020.

- SMILSI

On June 22, 2018, the BOD and stockholders of SMILSI approved the increase in its authorized capital stock from P20 divided into 20,000,000 common shares to P1,020 divided into 1,020,000,000 common shares, both with a par value of P1.00 per common share. On the same date, SMC in a Subscription Agreement, subscribed to 250,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P375 or P1.50 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on January 21, 2019 and was approved on January 31, 2019. SMC initially paid P227 in 2018 while the remaining balance amounting to P148 was paid in 2019.

On various dates in 2019, SMILSI and SMC executed Subscription Agreements to subscribe to additional 749,353,800 common shares of SMILSI for a total subscription price of P1,124 or P1.50 per common share. The subscription price was fully paid in 2019.

On January 14, 2020, SMILSI and SMC executed a Subscription Agreement to subscribe to an additional 5,646,200 common shares of SMILSI for a subscription price of P8 or P1.50 per common share. The subscription price was fully paid in 2020.

On January 14, 2020, the BOD and stockholders of SMILSI approved the additional increase in its authorized capital stock from P1,020 divided into 1,020,000,000 common shares to P4,020 divided into 4,020,000,000 common shares, both with a par value of P1.00 per common share. On the same date, SMC in a Subscription Agreement, subscribed to 1,000,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P1,500 or P1.50 per common share.

On various dates in 2020, SMILSI and SMC executed Subscription Agreements to subscribe to a total of 733,110,500 additional common shares out of the proposed increase in authorized capital stock of SMILSI for a total subscription price of P1,100 or P1.50 per common share. In 2020, SMC paid P2,600.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2020 and was approved on January 6, 2021.

The details of the Group's non-controlling interests in SMC are as follows:

	December 31, 2020	December 31, 2019
Percentage of non-controlling interests	34.01%	34.01%
Carrying amount of non-controlling interests	P528,504	P440,228
Net income attributable to non-controlling interests	P23,880	P38,994
Other comprehensive loss attributable to non-controlling interests	(P2,438)	(P3,092)
Dividends paid to non-controlling interests	P29,420	P28,523

The following are the audited condensed financial information of SMC:

	2020	2019
Current assets	P672,411	P641,144
Noncurrent assets	1,239,796	1,176,590
Current liabilities	(419,384)	(439,617)
Noncurrent liabilities	(837,735)	(803,722)
Net assets	P655,088	P574,395
Sales	P725,797	P1,020,502
Net income	P21,879	P48,574
Other comprehensive loss	(5,001)	(6,091)
Total comprehensive income	P16,878	P42,483
Cash flows provided by operating activities	P50,854	P92,195
Cash flows used in investing activities	(82,629)	(112,040)
Cash flows provided by financing activities	101,979	66,756
Effect of exchange rate changes on cash and cash equivalents	(9,452)	(3,604)
Net increase in cash and cash equivalents	P60,752	P43,307

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 and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, energy, fuel and oil, infrastructure and mining.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively known as “Prepared and Packaged Food”), (ii) the production and sale of feeds (“Animal Nutrition and Health”), (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats (“Protein”), and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements (PSA), retail supply contracts (RSC), concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), other generators, distribution utilities (DUs), electric cooperatives and industrial customers, or through the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining crude oil and marketing and distribution of refined petroleum products.

The infrastructure segment has investments in companies which hold long-term concessions in the infrastructure sector in the Philippines. It is engaged in the management and operation, as well as, construction and development of various infrastructure projects such as major toll roads, airports, railways, bulk water and ports.

The mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, 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 and other noncurrent liabilities, excluding interest payable. Segment assets and 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.

Operating Segments

Financial information about reportable segments follows:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Cement, Real Estate, Mining and Others			Eliminations			Consolidated		
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018
Sales																								
External sales	P279,122	P310,482	P286,205	P22,832	P25,327	P24,674	P111,798	P131,580	P116,933	P281,659	P508,691	P551,271	P14,564	P23,399	P24,530	P15,801	P21,001	P21,302	P -	P -	P -	P725,776	P1,020,480	P1,024,915
Inter-segment sales	168	303	173	8,672	12,547	12,651	3,231	3,480	3,170	4,374	5,671	6,115	1	7	-	22,010	19,893	17,286	(38,456)	(41,901)	(39,395)	-	-	-
Total sales	P279,290	P310,785	P286,378	P31,504	P37,874	P37,325	P115,029	P135,060	P120,103	P286,033	P514,362	P557,386	P14,565	P23,406	P24,530	P37,811	P40,894	P38,588	(P38,456)	(P41,901)	(P39,395)	P725,776	P1,020,480	P1,024,915
Result																								
Segment result	P33,098	P47,467	P45,174	P960	P3,597	P3,047	P36,178	P35,209	P32,429	(P4,705)	P16,070	P22,402	P2,467	P11,340	P11,724	P1,763	P575	P1,578	P115	(P156)	(P1,690)	P69,876	P114,102	P114,664
Interest expense and other financing charges																						(50,694)	(53,730)	(42,766)
Interest income																						6,187	10,688	7,211
Equity in net earnings (losses) of associates and joint ventures																						424	106	(289)
Gain (loss) on sale of investments and property and equipment																						(491)	(237)	252
Other income (charges) - net																						14,153	6,551	(9,497)
Income tax expense																						(15,833)	(28,909)	(24,715)
Net Income																						P23,622	P48,571	P44,860
Attributable to:																								
Equity holders of the Parent Company																						(P233)	P9,604	P7,000
Non-controlling interests																						23,855	38,967	37,860
Net Income																						P23,622	P48,571	P44,860

Forward

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Cement, Real Estate, Mining and Others			Eliminations			Consolidated			
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	
Other Information																									
Segment assets	P241,980	P236,948	P209,533	P69,363	P59,747	P52,434	P551,480	P498,781	P435,138	P342,506	P389,134	P352,323	P241,186	P232,258	P215,083	P418,494	P342,718	P342,920	(P128,651)	(P117,695)	(P105,133)	P1,736,358	P1,641,891	P1,502,298	
Investments in and advances to associates and joint ventures	4	58	280	-	-	-	9,956	11,001	12,148	6	12	10	4,465	3,968	745	191,243	192,998	192,507	(155,145)	(155,151)	(154,936)	50,529	52,886	50,754	
Goodwill and trademarks and brand names																									
Other assets																									
Deferred tax assets																									
Consolidated Total Assets																									
Segment liabilities	P55,255	P50,773	P44,373	P10,213	P10,343	P11,207	P35,245	P28,129	P23,700	P42,110	P71,831	P57,989	P45,696	P45,193	P47,349	P112,338	P116,104	P107,727	(P99,620)	(P100,884)	(P93,840)	P201,237	P221,489	P198,505	
Loans payable																									
Long-term debt																									
Lease liabilities																									
Income and other taxes payable																									
Dividends payable and others																									
Deferred tax liabilities																									
Consolidated Total Liabilities																									
Capital expenditures (Note 13)	P13,888	P18,163	P13,999	P3,149	P5,207	P6,303	P26,771	P10,108	P6,056	P8,167	P19,769	P10,416	P452	P598	P601	P11,410	P12,974	P9,950	P -	P -	P -	P63,837	P66,819	P47,325	
Depreciation and amortization of property, plant and equipment (Notes 13 and 28)	4,656	3,885	3,763	2,165	1,961	2,080	5,215	4,587	9,934	6,556	10,359	9,925	377	371	265	3,185	2,963	2,552	-	-	-	22,154	24,126	28,519	
Noncash items other than depreciation and amortization of property, plant and equipment	6,320	5,437	6,712	347	691	(806)	3,094	2,907	6,148	(889)	180	4,279	5,453	5,323	4,810	(6,284)	(2,080)	4,962	-	-	-	8,041	12,458	26,105	
Loss on (reversal of) impairment of property, plant and equipment, and other noncurrent assets	1	1,015	655	(99)	241	37	(68)	35	70	-	282	-	-	-	-	-	-	(257)	-	-	-	(166)	1,573	505	

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Cement, Real Estate, Mining and Others			Consolidated					
	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018	2020	2019	2018			
Timing of Revenue Recognition																								
Sales recognized at point in time	P279,110	P310,410	P286,094	P21,897	P24,570	P23,972	P -	P -	P -	P281,659	P508,691	P551,271	P -	P -	P -	P13,361	P16,659	P16,720	P596,027	P860,330	P878,057			
Sales recognized over time	12	72	111	935	757	702	111,798	131,580	116,933	-	-	-	14,564	23,399	24,530	2,440	4,342	4,582	129,749	160,150	146,858			
Total External Sales	P279,122	P310,482	P286,205	P22,832	P25,327	P24,674	P111,798	P131,580	P116,933	P281,659	P508,691	P551,271	P14,564	P23,399	P24,530	P15,801	P21,001	P21,302	P725,776	P1,020,480	P1,024,915			

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2020	2019
Cash in banks and on hand		P102,479	P72,963
Short-term investments		245,483	213,714
	<i>4, 39, 40</i>	P347,962	P286,677

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

8. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2020	2019
Trade		P74,700	P86,832
Non-trade		48,975	47,209
Amounts owed by related parties	<i>33, 35</i>	11,058	11,581
		134,733	145,622
Less allowance for impairment losses	<i>4, 5</i>	13,768	12,715
	<i>4, 39, 40</i>	P120,965	P132,907

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

Non-trade receivables consist primarily of claims from the Government, interest receivable, claims receivable, contracts receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims, subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism and due from PSALM pertaining to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015 (Note 43).

Amounts owed by related parties include trade receivables amounting to P994 and P1,239 as at December 31, 2020 and 2019, respectively.

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

	<i>Note</i>	2020	2019
Balance at beginning of year		P12,715	P13,223
Charges for the year	<i>27, 32</i>	1,196	323
Consolidation of subsidiaries	<i>5</i>	5	3
Amounts written off	<i>4</i>	(151)	(577)
Translation adjustments and others		3	(257)
Balance at end of year		P13,768	P12,715

9. Inventories

Inventories consist of:

	<i>Note</i>	2020	2019
At net realizable value:			
Finished goods and goods in process (including petroleum products)		P57,959	P85,159
Materials and supplies (including coal)		41,063	38,044
At cost:			
Raw land inventory and real estate projects		3,806	4,265
	4	P102,828	P127,468

The cost of finished goods and goods in process amounted to P58,436 and P86,163 as at December 31, 2020 and 2019, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P142 and P1,374 as at December 31, 2020 and 2019, respectively.

The cost of materials and supplies amounted to P42,412 and P39,181 as at December 31, 2020 and 2019, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P367,117, P565,264 and P592,546 in 2020, 2019 and 2018, respectively (Note 26).

The movements in allowance for write-down of inventories to NRV and inventory obsolescence at the beginning and end of 2020 and 2019 follow:

	<i>Note</i>	2020	2019
Balance at beginning of year		P2,141	P2,370
Provisions (reversals)		(165)	48
Consolidation of a subsidiary	5	136	-
Write-off and others		(286)	(277)
Balance at end of year		P1,826	P2,141

Provisions for inventory losses amounted to P331 and P894 in 2020 and 2019, respectively. Reversals of provision for inventory losses pertain to inventories sold amounting to P496 and P846 in 2020 and 2019, respectively. Provisions (reversals) of inventory losses are included as part of "Cost of sales" and "Selling and Administrative Expenses" accounts in the consolidated statements of income (Notes 26 and 27).

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P200 and P130 as at December 31, 2020 and 2019, respectively, with corresponding costs at point of harvest amounting to P130 and P104, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to P70, P26 and (P7) in 2020, 2019 and 2018, respectively (Note 16).

The fair values of marketable hogs and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as at December 31, 2020 and 2019, based on management's assessment.

The fair value of raw land inventory amounted to P10,713 and P10,740 as at December 31, 2020 and 2019, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2020	2019
Prepaid taxes and licenses		P82,136	P72,593
Restricted cash - current	4, 39, 40	3,111	6,256
PSALM monthly fee outage credits		1,681	886
Prepaid insurance		1,182	786
Advances to contractors and suppliers	33	1,020	1,782
Derivative assets	39, 40	596	917
Financial assets at FVPL	39, 40	275	284
Prepaid rent		270	315
Catalyst		241	304
Financial assets at amortized cost - current portion	4, 12, 39, 40	105	71
Financial assets at FVOCI - current portion	4, 12, 39, 40	80	38
Others	34	4,136	2,571
		P94,833	P86,803

Restricted cash - current represents: (i) cash in banks maintained by Vertex, SMCTC, MTDME, SIDC, CCEC, AAIPC and LCWDC in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts; and (ii) funds maintained in various financial institutions of SCPC, SMCP and MPPCL, as (a) cash flow waterfall accounts required under its respective credit facility (b) environmental guarantee fund for remittance to the DENR and (c) financial benefits to host communities, as required by law.

PSALM monthly fee outage credits pertain to the approved reduction in the future monthly fees payable of SMEC to PSALM resulting from the outages of the Sual Power Plant in 2020 and 2019.

Advances to contractors and suppliers include amounts owed by a related party amounting to P19 as at December 31, 2020 (Note 33).

“Others” consist mainly of prepayments for various operating expenses and contract assets pertaining to the Group’s right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

The methods and assumptions used to estimate the fair values of restricted cash, derivative assets, financial assets at FVPL, and financial assets at FVOCI are discussed in Note 40.

11. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2020	2019
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P23,715	P22,319
Additions		-	1,051
Reclassification from investment in shares of stock of subsidiaries	5	-	1,310
Reclassification to investment in shares of stock of subsidiaries	5	(3,500)	(965)
Balance at end of year		20,215	23,715
Accumulated Equity in Net Earnings			
Balance at beginning of year		1,954	563
Reclassification from investment in shares of stock of subsidiaries	5	-	1,300
Equity in net earnings		424	106
Share in other comprehensive loss		(132)	(25)
Reclassification to investment in shares of stock of subsidiaries	5	(1,402)	10
Balance at end of year		844	1,954
		21,059	25,669
Advances for Investments			
		29,470	27,217
	4	P50,529	P52,886

Investments in Shares of Stock of Associates

a. NCC

As discussed in Note 5, NCC became a wholly-owned subsidiary of SMEII and was consolidated to the Group effective August 20, 2020.

b. Bank of Commerce (BOC)

SMC through SMPI and SMC Equivest Corporation, respectively, has 39.93% and 4.69% equity ownership interest in BOC representing 44,817,164 and 5,258,956 common shares. BOC is engaged in commercial banking services.

c. MPGC

On January 25, 2019, SMC Global subscribed to the remaining 18,314,898 unissued common shares of MPGC, thereby increasing SMC Global's ownership interest in MPGC from 49% to 73.58%. On September 6, 2019, SMC Global subscribed to an additional 58,000,000 common shares out of the proposed increase in the authorized capital stock of MPGC at the subscription price of P100.00 per share, or total subscription amount of P5,800. On the same date, the increase in the authorized capital stock of MPGC was approved by the SEC. As at December 31, 2019 SMC Global effectively owns 89.54% of MPGC.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

Investments in Shares of Stock of Joint Ventures

a. Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global has an existing joint venture agreement with Korea Water Resources Corporation (K-Water), covering the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

PVEI holds 30,541,470 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

In January 2017, PVEI granted shareholder advances amounting to US\$32 to Angat Hydro. The advances bear annual interest rate of 4.5% and were due on April 30, 2017. The due date of the advances was extended as agreed amongst the parties.

As at December 31, 2020 and 2019, the remaining balance of the shareholder advances amounted to US\$2 and due date was extended to December 31, 2021.

b. MNHPI

As discussed in Note 5, MNHPI ceased to be a subsidiary of SMHC following the increase in shareholdings of non-controlling interest as at April 26, 2019.

In December 2019, SMHC acquired for a total amount of P1,060, additional 1,950,000 and 50,000 common shares of stock of MNHPI from IZ Investment Holdings, Inc. and Petron, respectively. With the acquisition of the additional shares, SMHC increased its equity interest in MNHPI from 43.33% to 50%.

Advances for Investments

- a. SMPI made advances to future investees amounting to P3,854 and P873 as at December 31, 2020 and 2019, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies.
- b. SMC Global and SMEC made deposits to certain landholding companies and power-related expansion projects amounting to P4,589 and P5,161 as at December 31, 2020 and 2019, respectively. These deposits will be applied against future stock subscriptions.
- c. On June 29, 2016, SMHL entered into an Investment Agreement (the Agreement) with Bryce Canyon Investments Limited, a British Virgin Island business company, for the sale and purchase of assets, as defined in the Agreement, upon the satisfaction of certain conditions set out in the Agreement. As at December 31, 2020 and 2019, outstanding investment advances amounted to P19,318 and P19,805, respectively.
- d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

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

	December 31, 2020						December 31, 2019					
	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others	Total	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Philippines			Philippines	Philippines	Philippines	Philippines		
Percentage of ownership	60.00%	-	44.62%	50.00%			60.00%	35.00%	44.62%	50.00%		
Share in net income (loss)	(P480)	P127	P314	P428	P35	P424	(P410)	P171	P304	P212	(P171)	P106
Share in other comprehensive income (loss)	-	-	(57)	(11)	(64)	(132)	-	(13)	(28)	-	16	(25)
Share in total comprehensive income (loss)	(P480)	P127	P257	P417	(P29)	P292	(P410)	P158	P276	P212	(P155)	P81
Dividends received	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -	P -
Carrying amount of investments in shares of stock of associates and joint ventures	P5,154	P -	P10,930	P4,290	P685	P21,059	P5,634	P4,775	P10,673	P3,873	P714	P25,669

The following are the audited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2020				December 31, 2019				
	Angat Hydro and KWPP	BOC	MNHPI	Others	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others
Current assets	P2,225	P94,964	P1,599	P5,490	P2,627	P2,427	P68,430	P1,373	P5,629
Noncurrent assets	16,989	75,957	10,427	2,742	17,558	8,949	76,603	11,080	2,897
Current liabilities	(1,319)	(146,840)	(2,951)	(4,493)	(1,279)	(1,274)	(126,284)	(4,177)	(4,936)
Noncurrent liabilities	(11,474)	(7,314)	(2,747)	(585)	(11,685)	(1,016)	(2,654)	(2,714)	(614)
Net assets	P6,421	P16,767	P6,328	P3,154	P7,221	P9,086	P16,095	P5,562	P2,976
Sales	P1,341	P6,280	P3,831	P4,177	P1,588	P8,165	P6,532	P4,195	P4,348
Net income (loss)	(P800)	P784	P759	P20	(P683)	P679	P653	P751	P108
Other comprehensive income (loss)	-	(113)	7	(20)	-	(36)	(65)	(37)	(21)
Total comprehensive income (loss)	(P800)	P671	P766	P -	(P683)	P643	P588	P714	P87

12. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	<i>Note</i>	2020	2019
Equity securities		P5,367	P5,351
Proprietary membership shares and others		422	439
Government and other debt securities		381	420
	<i>4, 39, 40</i>	6,170	6,210
Less current portion	<i>10</i>	185	109
		P5,985	P6,101

Debt Securities

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 1.78% to 7.02% in 2020 and 4.25% to 7.02% in 2019 (Note 31).

The movements in investments in equity and debt instruments are as follows:

	<i>Note</i>	2020	2019
Balance at beginning of year		P6,210	P6,163
Additions		70	71
Fair value gain		1	70
Disposals		(108)	(94)
Amortization of premium		(1)	-
Currency translation adjustments and others		(2)	-
Balance at end of year	<i>4, 10, 39, 40</i>	P6,170	P6,210

The investments in equity and debt instruments are classified as follows:

	2020	2019
Noncurrent		
Financial assets at FVOCI	P5,835	P5,915
Financial assets at amortized cost	150	186
	5,985	6,101
Current		
Financial assets at FVOCI	80	38
Financial assets at amortized cost	105	71
	185	109
	P6,170	P6,210

The carrying amount of the investments approximate their fair value (Note 40).

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Notes 3, 4 and 40.

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost											
January 1, 2019		P60,299	P47,396	P136,565	P168,155	P17,793	P159,334	P5,629	P5,594	P85,290	P686,055
Additions		2,424	1,523	234	6,000	1,769	6,266	207	-	48,396	66,819
Acquisition of subsidiaries	38	1,456	270	-	-	-	647	5	69	79	2,526
Disposals/retirement		(5)	(54)	(69)	(38)	(464)	(3,433)	(35)	-	(316)	(4,414)
Reclassifications and others	15	4,105	7,068	(11,426)	223	432	15,403	1,310	-	(38,815)	(21,700)
Currency translation adjustments		(368)	(611)	(1,798)	(153)	(246)	(1,407)	(15)	-	(1,197)	(5,795)
December 31, 2019		67,911	55,592	123,506	174,187	19,284	176,810	7,101	5,663	93,437	723,491
Additions		1,272	342	953	446	560	3,717	66	-	56,481	63,837
Consolidation of a subsidiary	5	2,581	2,042	-	-	-	11,418	-	7	790	16,838
Disposals/retirement		(20)	(172)	-	(5)	(91)	(5,189)	(28)	-	(38)	(5,543)
Reclassifications and others	15	1,564	8,624	24,903	1,757	349	12,673	566	-	(49,461)	975
Currency translation adjustments		(143)	(261)	(2,671)	(430)	(315)	(750)	10	-	(1,557)	(6,117)
December 31, 2020		73,165	66,167	146,691	175,955	19,787	198,679	7,715	5,670	99,652	793,481
Accumulated Depreciation and Amortization											
January 1, 2019		3,422	18,934	24,724	51,444	12,541	99,242	1,550	4,893	-	216,750
Depreciation and amortization	6, 28	249	1,828	5,487	6,523	1,098	8,609	326	6	-	24,126
Acquisition of subsidiaries	38	116	164	-	-	-	239	3	45	-	567
Disposals/retirement		(5)	(40)	(3)	(35)	(445)	(2,893)	(21)	-	-	(3,442)
Reclassifications		(20)	59	(17,794)	1	(166)	(2,769)	(86)	-	-	(20,775)
Currency translation adjustments		(64)	(171)	(735)	(214)	(148)	(672)	(6)	-	-	(2,010)
December 31, 2019		3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	6, 28	380	2,001	5,713	3,128	1,028	9,493	397	14	-	22,154
Consolidation of a subsidiary	5	88	511	-	-	-	5,894	-	6	-	6,499
Disposals/retirement		(16)	(109)	-	(5)	(60)	(3,988)	(27)	-	-	(4,205)
Reclassifications		(5)	30	-	81	15	(248)	(39)	-	-	(166)
Currency translation adjustments		(6)	(131)	(1,103)	(318)	(172)	(454)	3	-	-	(2,181)
December 31, 2020		4,139	23,076	16,289	60,605	13,691	112,453	2,100	4,964	-	237,317
Accumulated Impairment Losses											
January 1, 2019		-	2,751	-	-	-	8,937	26	573	-	12,287
Impairment	32	-	194	-	-	-	682	-	-	-	876
Disposals/retirement		-	-	-	-	-	(35)	-	-	-	(35)
Reclassifications		-	(73)	-	-	-	-	-	-	-	(73)
Currency translation adjustments		-	(158)	-	-	-	(434)	(2)	-	-	(594)
December 31, 2019		-	2,714	-	-	-	9,150	24	573	-	12,461
Impairment	32	-	-	-	-	-	35	-	-	-	35
Consolidation of a subsidiary	5	-	-	-	-	-	330	-	-	-	330
Disposals/retirement		-	-	-	-	-	(13)	-	-	-	(13)
Reclassifications		-	-	-	-	-	(11)	-	-	-	(11)
Currency translation adjustments		-	27	-	-	-	(38)	2	-	-	(9)
December 31, 2020		-	2,741	-	-	-	9,453	26	573	-	12,793
Carrying Amount											
December 31, 2019		P64,213	P32,104	P111,827	P116,468	P6,404	P65,904	P5,311	P146	P93,437	P495,814
December 31, 2020		P69,026	P40,350	P130,402	P115,350	P6,096	P76,773	P5,589	P133	P99,652	P543,371

“Equipment, furniture and fixtures” includes machinery, transportation equipment, tools and small equipment and office equipment.

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P22,189, P25,002 and P29,136 in 2020, 2019 and 2018, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P997, P562 and P542 in 2020, 2019 and 2018, respectively.

Reclassifications and others include transfers to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 15) and reclassifications from capital projects in progress account to specific property, plant and equipment accounts.

Property, plant and equipment of the Group’s hog farm were reclassified to idle assets, included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position as at December 31, 2020 due to the impact of the African Swine Fever that resulted in extended downtime of the facility (Note 18).

As discussed in Notes 3 and 4, the Group has changed its depreciation method for refinery and plant equipment and certain power plant assets used in the production of fuel from straight-line to UOP method. The change decreased the depreciation expense by P4,241 in 2020.

The Group has capitalized interest amounting to P2,323 and P3,103 in 2020 and 2019, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 1.45% to 12.96% and 5.74% to 9.09% in 2020 and 2019, respectively. The unamortized capitalized borrowing costs amounted to P18,026 and P16,700 as at December 31, 2020 and 2019, respectively.

Certain fully depreciated property, plant and equipment with aggregate costs of P78,938 and P70,712 as at December 31, 2020 and 2019, respectively, are still being used in the Group’s operations.

14. Right-of-Use Assets

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

	<i>Note</i>	Land	Buildings and Improvements	Power Plants	Service Stations and Other Equipment	Machinery and Equipment	Total
Cost							
January 1, 2019		P13,365	P1,063	P195,681	P24	P504	P210,637
Additions		15	151	-	-	111	277
Acquisition of a subsidiary	38	208	-	-	-	-	208
Disposals		(3)	-	-	-	-	(3)
Remeasurement and others		(1,202)	(124)	-	-	-	(1,326)
Currency translation adjustments		(214)	(4)	-	-	-	(218)
December 31, 2019		12,169	1,086	195,681	24	615	209,575
Additions		1,190	170	-	-	100	1,460
Consolidation of a subsidiary	5	7	47	-	-	-	54
Disposals/retirement		(148)	(206)	-	-	(33)	(387)
Remeasurement and others		1,153	(77)	-	-	(11)	1,065
Currency translation adjustments		39	(4)	-	-	5	40
December 31, 2020		14,410	1,016	195,681	24	676	211,807
Accumulated Depreciation and Amortization							
January 1, 2019		1,284	-	3,909	-	-	5,193
Depreciation and amortization	28	598	682	5,930	3	220	7,433
Disposals		(2)	-	-	-	-	(2)
Remeasurement and others		(428)	20	-	-	-	(408)
Currency translation adjustments		11	(7)	-	-	-	4
December 31, 2019		1,463	695	9,839	3	220	12,220
Depreciation and amortization	28	866	419	5,932	3	219	7,439
Consolidation of a subsidiary	5	3	16	-	-	-	19
Disposals/retirement		(46)	(193)	-	-	(33)	(272)
Remeasurement and others		518	(314)	-	-	(4)	200
Currency translation adjustments		9	11	-	-	-	20
December 31, 2020		2,813	634	15,771	6	402	19,626
Accumulated Impairment Losses							
January 1, 2019		82	-	-	-	-	82
Acquisition of a subsidiary	38	29	-	-	-	-	29
Currency translation adjustments		(1)	-	-	-	-	(1)
December 31, 2019		110	-	-	-	-	110
Remeasurement and others		(29)	-	-	-	-	(29)
Currency translation adjustments		(4)	-	-	-	-	(4)
December 31, 2020		77	-	-	-	-	77
Carrying Amount							
December 31, 2019		P10,596	P391	P185,842	P21	P395	P197,245
December 31, 2020		P11,520	P382	P179,910	P18	P274	P192,104

The Group recognized right-of-use assets for leases of office space, warehouse, factory facilities and parcels of land. The leases typically run for a period of one to 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.

The Group's right-of-use assets include land, power plant and equipment which were classified as finance leases under PAS 17 (Note 34).

The remeasurements pertain mainly to the change in the estimated dismantling costs of ARO during the year (Note 4).

The Group recognized interest expense related to these leases amounting to P5,080 and P5,912 in 2020 and 2019, respectively (Note 30).

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases, leases of low-value assets and variable lease payments that do not depend on an index or a rate amounted to P877, P10 and P2,565, respectively, in 2020 and P731, P3 and P2,727, respectively, in 2019.

The Group had total cash outflows for leases of P35,556 and P32,336 in 2020 and 2019, respectively.

15. Investment Property

The movements in investment property are as follows:

	Note	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Right-of-Use Asset	Total
Cost							
January 1, 2019		P26,807	P17,405	P597	P288	P11,456	P56,553
Additions		6,821	1,647	2	107	809	9,386
Reclassifications	13	3,616	704	-	(6)	-	4,314
Disposals/retirement		(61)	(105)	(1)	-	(3)	(170)
Currency translation adjustments		(277)	(237)	-	-	(20)	(534)
December 31, 2019		36,906	19,414	598	389	12,242	69,549
Additions		7,109	473	-	280	849	8,711
Reclassifications	13	4,846	542	-	(193)	(2,721)	2,474
Disposals/retirement		-	(34)	-	-	(110)	(144)
Currency translation adjustments		(402)	(335)	-	(34)	(31)	(802)
December 31, 2020		48,459	20,060	598	442	10,229	79,788
Accumulated Depreciation and Amortization							
January 1, 2019		1,149	9,810	495	-	288	11,742
Depreciation and amortization	28	322	713	2	-	958	1,995
Reclassifications		2,760	(126)	-	-	-	2,634
Disposals/retirement		(23)	(47)	(1)	-	-	(71)
Currency translation adjustments		(71)	(209)	-	-	(7)	(287)
December 31, 2019		4,137	10,141	496	-	1,239	16,013
Depreciation and amortization	28	320	797	2	-	994	2,113
Reclassifications		(7)	3	-	-	30	26
Disposals/retirement		-	(31)	-	-	(110)	(141)
Currency translation adjustments		(221)	(369)	-	-	(11)	(601)
December 31, 2020		4,229	10,541	498	-	2,142	17,410
Accumulated Impairment Losses							
December 31, 2019 and 2020		8	-	-	-	-	8
Carrying Amount							
December 31, 2019		P32,761	P9,273	P102	P389	P11,003	P53,528
December 31, 2020		P44,222	P9,519	P100	P442	P8,087	P62,370

In 2020 and 2019, property, plant and equipment were reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 13).

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

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2020, 2019 and 2018.

The fair value of investment property amounting to P75,305 and P63,878 as at December 31, 2020 and 2019, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

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

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

Sales Comparison Approach. The market value was determined using the Sales Comparison Approach. The comparative approach considers the sale of similar or substitute property, registered within the vicinity, and the related market data. The estimated value is established by process involving comparison. 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.

Income Approach. 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 is 4%.

16. Biological Assets

Biological assets consist of:

	<i>Note</i>	2020	2019
Current:			
Growing stocks		P2,591	P3,448
Goods in process		810	703
		3,401	4,151
Noncurrent:			
Breeding stocks - net		2,352	2,808
	4	P5,753	P6,959

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P3,566, P3,152 and P2,801 in 2020, 2019 and 2018, respectively (Note 28).

Growing stocks pertain to growing broilers and hogs, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	<i>Note</i>	2020	2019
Cost			
Balance at beginning of year		P8,511	P8,636
Increase (decrease) due to:			
Production		47,131	50,954
Purchases		349	471
Mortality		(1,396)	(827)
Harvest		(43,622)	(47,344)
Retirement		(4,635)	(3,379)
Balance at end of year		6,338	8,511
Accumulated Amortization			
Balance at beginning of year		1,552	1,547
Amortization	28	3,565	3,152
Retirement		(4,532)	(3,147)
Balance at end of year		585	1,552
Carrying Amount		P5,753	P6,959

The Group harvested approximately 575.7 million and 609.5 million kilograms of grown broilers in 2020 and 2019, respectively, and 0.45 million and 0.49 million heads of marketable hogs and cattle in 2020 and 2019, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P64,875 and P57,255 in 2020 and 2019, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2020	2019
Goodwill	P120,463	P120,392
Other intangible assets	276,250	255,836
	P396,713	P376,228

The movements in goodwill are as follows:

	Note	2020	2019
Balance at beginning of year		P120,392	P120,867
Additions	4, 38	-	53
Deconsolidation of a subsidiary	5	-	(325)
Cumulative translation adjustments		71	(203)
Balance at end of year	4	P120,463	P120,392

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2019	P3,797	P90,974	P94,771
Currency translation adjustments	76	(13)	63
December 31, 2019	3,873	90,961	94,834
Currency translation adjustments	(106)	(15)	(121)
December 31, 2020	3,767	90,946	94,713
Accumulated Impairment Losses			
January 1, 2019	-	254	254
Currency translation adjustments	-	(9)	(9)
December 31, 2019	-	245	245
Currency translation adjustments	-	(12)	(12)
December 31, 2020	-	233	233
Carrying Amount			
December 31, 2019	P3,873	P90,716	P94,589
December 31, 2020	P3,767	P90,713	P94,480

The movements in other intangible assets with finite useful lives are as follows:

Note	Concession Rights					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
	Toll Road	Airport	Power	Port	Water				
Cost									
January 1, 2019	P145,423	P7,533	P1,034	P13,838	P6,519	P732	P15,219	P4,440	P194,738
Additions	13,805	1,664	206	73	449	1	-	1,807	18,005
Acquisition of subsidiaries	5, 38	-	-	-	-	8	25	2	35
Deconsolidation of a subsidiary	5	-	-	(13,911)	-	-	-	-	(13,911)
Reclassifications and others	-	3,018	320	-	(81)	(730)	-	(908)	1,619
Currency translation adjustments	-	-	-	-	-	(11)	-	(27)	(38)
December 31, 2019	162,246	9,517	1,240	-	6,887	-	15,244	5,314	200,448
Additions	15,969	1,960	211	-	7	-	-	357	18,504
Consolidation of a subsidiary	5	-	-	-	-	-	4,625	23	4,648
Reclassifications and others	-	3,383	-	(17)	-	-	-	(1,052)	2,314
Currency translation adjustments	-	-	-	-	-	-	-	(7)	(7)
December 31, 2020	181,598	11,477	1,434	-	6,894	-	19,869	4,635	225,907
Accumulated Amortization									
January 1, 2019	30,449	725	133	2,460	-	175	-	2,833	36,775
Amortization	28	4,062	370	48	237	206	22	181	5,126
Acquisition of subsidiaries	5, 38	-	-	-	-	4	23	-	27
Deconsolidation of a subsidiary	5	-	-	(2,697)	-	-	-	-	(2,697)
Reclassifications and others	-	-	-	-	-	(197)	-	103	(94)
Currency translation adjustments	-	-	-	-	-	(4)	-	(22)	(26)
December 31, 2019	34,511	1,095	181	-	206	-	23	3,095	39,111
Amortization	28	4,103	377	55	257	-	62	221	5,075
Consolidation of a subsidiary	5	-	-	-	-	-	-	22	22
Reclassifications and others	-	-	-	-	-	-	-	(226)	(226)
Currency translation adjustments	-	-	-	-	-	-	-	(26)	(26)
December 31, 2020	38,614	1,472	236	-	463	-	85	3,086	43,956
Accumulated Impairment									
January 1, 2019	-	-	20	-	-	-	-	40	60
Impairment	32	-	30	-	-	-	-	-	30
December 31, 2019	-	-	50	-	-	-	-	40	90
Impairment	32	-	91	-	-	-	-	-	91
December 31, 2020	-	-	141	-	-	-	-	40	181
Carrying Amount									
December 31, 2019	P127,735	P8,422	P1,009	P -	P6,681	P -	P15,221	P2,179	P161,247
December 31, 2020	P142,984	P10,005	P1,057	P -	P6,431	P -	P19,784	P1,509	P181,770

Goodwill, licenses and trademarks and brand names with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2020		2019	
	Goodwill	Licenses, Trademarks and Brand Names	Goodwill	Licenses, Trademarks and Brand Names
Energy	P79,544	P -	P79,544	P -
Infrastructure	18,429	-	18,429	-
Fuel and oil	8,777	38,300	8,777	38,300
Food and beverage	3,922	56,180	3,922	56,289
Packaging	2,755	-	2,682	-
Mining	1,280	-	1,280	-
Others	5,756	-	5,758	-
Total	P120,463	P94,480	P120,392	P94,589

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 2% to 12.9% and 0.5% to 5% in 2020 and 2019, respectively, are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 13% in 2020 and 2019. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

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

The recoverable amount of licenses, 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. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 3% and 2% to 4% in 2020 and 2019, respectively, are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 15.1% in 2020 and 2019. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for licenses, trademarks and brand names in 2020, 2019 and 2018.

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

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2020	2019
Noncurrent receivables and deposits - net	4, 33, 34, 39, 40	P25,058	P25,739
Deferred containers - net	4	19,015	20,125
Advances to contractors and suppliers		17,443	20,589
Restricted cash	4, 39, 40	4,869	6,258
Deposits on land for future development		3,626	3,619
Retirement assets	35	2,699	2,496
Noncurrent prepaid input tax		2,348	3,164
Idle assets	4	2,002	1,279
Deferred exploration and development costs	4	1,061	1,050
Catalyst		551	683
Noncurrent prepaid rent		383	295
Derivative assets - noncurrent	3, 39, 40	39	241
Deferred financing costs		4	1,986
Others		1,771	2,606
		P80,869	P90,130

The movements in deferred containers - net are as follows:

	<i>Note</i>	2020	2019
Gross Carrying Amount			
Balance at beginning of year		P32,332	P28,948
Additions		2,903	5,672
Disposals/retirement/reclassifications		(2,195)	(2,265)
Currency translation adjustments		(113)	(23)
Balance at end of year		32,927	32,332
Accumulated Amortization			
Balance at beginning of year		11,526	10,762
Amortization	28	2,038	2,309
Disposals/retirement/reclassifications		(362)	(1,525)
Currency translation adjustments		(24)	(20)
Balance at end of year		13,178	11,526
Accumulated Impairment			
Balance at beginning of year		681	579
Impairment	27, 32	682	682
Disposals/reclassifications		(626)	(580)
Currency translation adjustments		(3)	-
Balance at end of year		734	681
		P19,015	P20,125

Noncurrent receivables and deposits include amounts owed by related parties amounting to P149 and P968 as at December 31, 2020 and 2019, respectively (Note 33) and the costs related to the development of the MRT 7 Project amounting to P23,157 and P21,291 as at December 31, 2020 and 2019, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P606 and P724 as at December 31, 2020 and 2019, respectively.

Restricted cash represents:

- i. SCPC's cash flow waterfall accounts amounting to P1,144 and P1,131 as at December 31, 2020 and 2019, respectively;
- ii. The amount received from Independent Electricity Market Operator of the Philippines (IEMOP), totaling P491 as at December 31, 2020 and 2019, representing the proceeds of sale to WESM of the electricity generated from the excess capacity of the Sual Power Plant for a specific period in 2016, which SMEC consigned with the Regional Trial Court of Pasig City (RTC Pasig);
- iii. APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for bill deposits which are refundable amounting to P148 and P159 as at December 31, 2020 and 2019, respectively;
- iv. MPPCL's cash flow waterfall accounts and environmental guarantee fund, totaling to P2,133 and P3,773 as at December 31, 2020 and 2019, respectively;
- v. Cash in bank maintained by CCEC and TADHC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P822 and P629 as at December 31, 2020 and 2019, respectively, of which P16 is included as part of "Prepaid expenses and other current assets" account under "Restricted cash - current" as at December 31, 2019 (Note 10);
- vi. Rehabilitation funds established by NCC which are deposited with a local bank in compliance with DENR Administrative Order No. 2005-07 for environmental protection and enhancement amounting to P41 as at December 31, 2020; and
- vii. Accounts of PNPI with local banks to establish a Mining Rehabilitation Fund (MRF) in compliance with the requirements of the Philippine Mining Act of 1995 and a deposit on a trust account with a bank, as required by an insurance company to serve as a guarantee for the surety bond required by the BIR for the payment of PNPI's excise taxes on nickel ore sales. The MRF will be used for physical and social rehabilitation of areas and communities affected by mining activities and for research on social, technical and preventive aspects of rehabilitation. The MRF and the deposit earn interest at the respective bank deposits rates.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 40.

In 2019, the Group entered into loan facilities, which were not yet drawn as at December 31, 2019. The loan facilitation fees and other filing and agency fees totaling to P1,986 were recognized as deferred financing costs as at December 31, 2019. Upon drawdown of the related loan in 2020, the amount was reclassified as an addition to debt issue cost recognized as a deduction from "Long-term debt" account in the consolidated statements of financial position (Note 21).

Also in 2020, SMC entered into a loan facility, which was not yet drawn as at December 31, 2020. The loan facilitation fees and other filing and agency fees totaling to P4 were recognized as deferred financing costs as at December 31, 2020.

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	<i>Note</i>	2020	2019
Parent Company			
Peso-denominated		P571	P571
Foreign currency-denominated		6,003	6,330
Subsidiaries			
Peso-denominated		134,890	167,103
Foreign currency-denominated		8,011	4,503
	<i>38, 39, 40</i>	P149,475	P178,507

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans ranged from 0.92% to 7.00% and 3.70% to 8.50% in 2020 and 2019, respectively. Interest rates for foreign currency-denominated loans ranged from 1.27% to 4.64% and 2.30% to 9.10% in 2020 and 2019, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P7,272 and P13,912 as at December 31, 2020 and 2019, respectively (Note 33).

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2020	2019
Trade	34	P66,288	P100,894
Non-trade		63,318	51,522
Amounts owed to related parties	33	13,325	13,808
Customers' deposit	3	7,697	8,168
Accrued payroll		6,028	5,100
Accrued interest payable		3,861	4,353
Derivative liabilities	39, 40	1,731	1,678
Deferred liability on consumer loyalty program		1,406	867
Retention payable		534	1,323
Current portion of IRO	4	425	187
Retirement liabilities	35	160	154
Deferred rent income		65	54
Redeemable preferred shares	4	19	-
Others		40	58
	<i>39, 40</i>	P164,897	P188,166

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

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year Bloomberg Valuation or BVAL). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares are required to be redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

As at December 31, 2020, the preferred shares remain outstanding as other requirements prior to redemption are pending from the shareholder.

“Others” include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 40.

21. Long-term Debt

Long-term debt consists of:

	<i>Note</i>	2020	2019
Subsidiaries			
Peso-denominated Bonds:			
Fixed interest rate of 4.8243% and 5.1923%, 6.25%, 5.284% and 5.55%, 6.625%, 5.7613%, and 7.125% maturing in 2022, 2023, 2024, 2025, 2027 and 2028, respectively (a)		P59,622	P59,500
Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (b)		39,776	39,705
Fixed interest rate of 5.3750%, 6.7500%, 6.2500% and 6.6250% maturing in 2022, 2023, 2024 and 2027, respectively (c)		34,770	34,699
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (d)		29,759	29,669
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (e)		14,984	14,962

Forward

	Note	2020	2019
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (f)		P14,941	P14,914
Fixed interest rate of 5.05% and 5.25% maturing in 2025 and 2027, respectively (g)		14,829	-
Fixed interest rate of 6.60% maturing in 2022, respectively (h)		6,988	6,979
Fixed interest rate of 5.5796% and 6.4872% maturing in 2022 and 2025, respectively (i)		4,877	7,265
Peso-denominated Term Notes:			
Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (j)		39,843	41,274
Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (k)		30,049	30,676
Fixed interest rate of 5.556%, 5.825% and 5.9970% with maturities up to 2029 (l)		26,800	16,720
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (m)		18,412	19,669
Fixed interest rate of 6.9375% with maturities up to 2026 (n)		15,661	15,807
Fixed interest rate of 6.9265% with maturities up to 2024 (o)		14,468	14,597
Fixed interest rate of 5.6276% with maturities up to 2029 (p)		11,516	11,910
Fixed interest rate of 4.63% maturing in 2024 (q)		9,939	9,925
Fixed interest rate of 3.5483% maturing in 2029 (r)		9,932	-
Fixed interest rate of 5.5276% with maturities up to 2024 (s)		8,008	10,136
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (t)		5,003	5,779
Fixed interest rate of 5.7584% with maturities up to 2022 (u)		4,990	7,479
Fixed interest rate of 4.59% with maturities up to 2025 (v)		4,970	-
Fixed interest rate of 8.4211% to 9.885% with maturities up to 2030 (w)		4,064	4,143
Fixed interest rate of 5.4583% with maturities up to 2022 (x)		1,998	2,995
Fixed interest rate of 3.2837% with maturities up to 2026 (y)		1,987	-
Fixed interest rate of 5.00% with maturities up to 2021 (z)		1,499	1,498
Fixed interest rate of 6.6583% with maturities up to 2023 (aa)		1,342	1,810
Fixed interest rate of 4.2105% with maturities up to 2023 (bb)		496	-
Fixed interest rate of 12.00% (cc)		52	52

Forward

	Note	2020	2019
Fixed interest rate of 5.25% (dd)		P -	P9,975
Fixed interest rate of 8.348% (ee)		-	877
Fixed interest rate of 8.6615% (ff)		-	391
Floating interest rate based on Bloomberg Valuation (BVAL) plus margin, or <i>Bangko Sentral ng Pilipinas</i> (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2029 (r)		7,944	9,925
Floating interest rate based on BVAL plus margin with maturities up to 2025 (gg)		4,419	-
Floating interest rate based on BVAL plus margin with maturities up to 2023 (hh)		3,216	3,740
Floating interest rate based on BVAL plus margin, with maturities up to 2024 (ii)		1,909	547
Floating interest rate based on BVAL plus margin, with maturities up to 2022 (jj)		1,879	2,356
Floating interest rate based on BVAL plus margin, with maturities up to 2026 (y)		-	1,985
Foreign Currency-denominated Term Notes:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (kk/vv)		25,597	27,835
Fixed interest rate of 4.875% maturing in 2023 (ll)		24,706	26,019
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2024 (mm)		93,914	2,364
Floating interest rate based on LIBOR plus margin, maturing in 2021 and 2023 (nn)		33,306	34,924
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (oo)		32,334	39,908
Floating interest rate based on LIBOR plus margin, maturing in 2023 (pp)		18,991	19,943
Floating interest rate based on LIBOR plus margin, maturing in 2023 (qq)		14,261	14,989
Floating interest rate based on LIBOR plus margin, maturing in 2023 (rr)		14,244	14,972
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (ss)		13,530	32,854
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (tt)		10,489	15,070
Floating interest rate based on LIBOR plus margin, maturing in 2023 (uu)		9,494	9,981

Forward

	Note	2020	2019
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (kk/vv)		P8,457	P9,218
Floating interest rate based on LIBOR plus margin, maturing in 2023 (ww)		7,003	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2025 (xx)		6,845	-
Floating interest rate based on Bank Bill Swap Rate (BBSY) plus margin, with maturities up to 2024 (yy)		2,827	2,792
Floating interest rate based on Cost of Fund (COF) plus margin, with various maturities up to 2027 (zz)		21	28
Net adjustment due to purchase price - allocation		(199)	(195)
	38, 39, 40	766,762	682,661
Less Current maturities		74,554	43,860
Net adjustment due to purchase price allocation - current		43	53
Net current maturities		74,597	43,913
		P692,165	P638,748

- a. The amount represents the first, second, third and fourth tranche of the P60,000 shelf registered fixed rate bonds issued by SMC amounting to P20,000, P10,000, P20,000 and P10,000, respectively. The Bonds were listed in the Philippine Dealing & Exchange Corp. (PDEX).
- The first tranche of the fixed rate bonds listed on March 1, 2017 amounting to P20,000 consists of: (i) five-year Series A Bonds, due in 2022 with an interest rate of 4.8243% per annum; (ii) seven-year Series B Bonds, due in 2024 with an interest rate of 5.284% per annum; and, (iii) 10-year Series C Bonds, due in 2027 with an interest rate of 5.7613% per annum. Interest is payable every 1st of March, June, September and December of each year.
 - The second tranche of the fixed rate bonds listed on April 7, 2017 amounting to P10,000 comprise of five-year Series D Bonds, due in 2022 with an interest rate of 5.1923% per annum. Interest is payable every 7th of January, April, July and October of each year.
 - The third tranche of the fixed rate bonds listed on March 19, 2018 amounting to P20,000, consist of: (i) five-year Series E Bonds, due in 2023 with an interest rate of 6.25% per annum; (ii) seven-year Series F Bonds, due in 2025 with an interest rate of 6.625% per annum; and, (iii) 10-year Series G Bonds, due in 2028 with an interest rate of 7.125% per annum. Interest is payable every 19th of March, June, September and December of each year.
 - The fourth tranche of the fixed rate bonds listed on October 4, 2019 amounting to P10,000 comprise of five-year Series H Bonds, due in 2024 with an interest rate of 5.55% per annum. Interest is payable every 4th of January, April, July and October of each year.

Proceeds from the issuance of the bonds were used to partially refinance various loans.

Unamortized debt issue costs amounted to P378 and P500 as at December 31, 2020 and 2019, respectively.

- b. The amount represents the first and second tranche of the P40,000 shelf registered fixed retail bonds (the "Bonds") issued by Petron amounting to P20,000 and P20,000, on October 27, 2016 and October 19, 2018, respectively. The Bonds were listed in the PDEX.
- The first tranche of the fixed rate bonds listed on October 27, 2016 amounting to P20,000, consist of: (i) five-year Series A Bonds, due in 2021 with an interest rate of 4.0032% per annum; and, (ii) Series B Bonds, due in 2023 with an interest rate of 4.5219% per annum. Interest is payable every 27th of January, April, July and October of each year.
 - The second tranche of the fixed rate bonds listed on October 19, 2018 amounting to P20,000, consist of: (i) 5.5-year Series C Bonds, due in 2024 with an interest rate of 7.8183% per annum; and, (ii) seven-year Series D Bonds, due in 2025 with an interest rate of 8.0551% per annum. Interest is payable every 19th of January, April, July and October of each year.

The proceeds from the first tranche were used to partially settle the US\$475 and US\$550 Term Loan, to repay short-term loans and for general corporate requirements.

The proceeds from the second tranche were used for the payment of short-term loans, redeemed a portion of Petron's USCS and for general corporate purposes.

Unamortized debt issue costs amounted to P224 and P295 as at December 31, 2020 and 2019, respectively.

- c. The amount represents the first and second tranche of the P35,000 shelf registered fixed rate bonds (the "Bonds") issued by SMC Global amounting to P20,000 on December 22, 2017 and P15,000 on August 17, 2018, respectively. The Bonds were listed in the PDEX.
- The first tranche of the fixed rate bonds listed on December 22, 2017 amounting to P20,000, consists of: (i) five-year Series D Bonds, due in 2022 with an interest rate of 5.3750% per annum; (ii) seven-year Series E Bonds, due in 2024 with an interest rate of 6.2500% per annum; and, (iii) 10-year Series F Bonds, due in 2027 with an interest rate of 6.6250% per annum. Interest is payable every 22nd of March, June, September and December of each year.
 - The second tranche of the fixed rate bonds listed on August 17, 2018 amounting to P15,000 pertains to the five-year Series G Bonds, due in 2023 with an interest rate of 6.7500% per annum. Interest is payable every 17th of February, May, August and November of each year.

Proceeds from the first tranche were used to refinance peso-denominated short-term loans.

Proceeds from the second tranche were used to refinance the outstanding shareholder advances and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P230 and P301 as at December 31, 2020 and 2019, respectively.

- d. The amount represents the first tranche of the P60,000 shelf registered fixed rate bonds (the “Bonds”) issued by SMC Global amounting to P30,000 on April 24, 2019. The Bonds were listed in the PDEX.

The Bonds consist of: (i) three-year Series H Bonds, due in 2022 with an interest rate of 6.8350% per annum; (ii) five-year Series I Bonds, due in 2024 with an interest rate of 7.1783% per annum; and, (iii) seven-year Series J Bonds, due in 2026 with an interest rate of 7.6000% per annum. Interest is payable every 24th of January, April, July and October of each year.

The net proceeds were used for refinancing of maturing long-term and short-term loans, in investments in power-related assets and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P241 and P331 as at December 31, 2020 and 2019, respectively.

- e. The amount represents P15,000 fixed rate bonds (the “Bonds”) issued by SMB on April 2, 2014, divided into: (i) Series G Bonds, due in 2021 with an interest rate of 5.50% per annum; and, (ii) Series H Bonds, due in 2024 with an interest rate of 6.00% per annum. Interest is payable every 2nd of April and October of each year.

Proceeds from the Series G and Series H issuance were used to partially refinance the redemption of Series B Bonds.

The Bonds were listed in the PDEX.

Unamortized debt issue costs amounted to P16 and P38 as at December 31, 2020 and 2019, respectively.

- f. The amount represents P15,000 fixed rate bonds (the “Bonds”) issued by SMC Global on July 11, 2016, divided into: (i) Series A Bonds, due in 2021 with an interest rate of 4.3458% per annum; (ii) Series B Bonds, due in 2023 with an interest rate of 4.7575% per annum; and, (iii) Series C Bonds, due in 2026 with an interest rate of 5.1792% per annum. Interest is payable every 11th of January, April, July and October of each year.

Proceeds from the issuance were used to refinance the US\$300 short-term loan that matured on July 25, 2016, which were used for the redemption of the US\$300 bond in January 2016.

The Bonds were listed in the PDEX.

Unamortized debt issue costs amounted to P59 and P86 as at December 31, 2020 and 2019, respectively.

- g. The amount represents the P15,000 fixed rate bonds (the “Bonds”) issued by SMFB on March 10, 2020, divided into Series A Bonds, due in 2025 with an interest rate of 5.050% per annum, and Series B Bonds, due in 2027 with an interest rate of 5.250% per annum. Interest is payable every 10th of March, June, September and December of each year. The Bonds were listed in the PDEX.

Proceeds from the issuance were used to redeem the outstanding Series “2” Perpetual Preferred Shares of SMFB.

Unamortized debt issue costs amounted to P171 as at December 31, 2020.

- h. The amount represents P17,000 fixed rate bonds (the “Bonds”) issued by SMB on April 2, 2012, divided into: (i) seven-year Series E Bonds, due in 2019 with an interest rate of 5.93% per annum; and, (ii) ten-year Series F Bonds, due in 2022 with an interest rate of 6.60% per annum. The Series E and F Bonds were part of the P20,000 fixed rate bonds of SMB. Interest is payable every 2nd of April and October of each year.

The proceeds from the issuance were used to refinance existing financial indebtedness and for general working capital purposes.

The Bonds were listed in the PDEX.

The Series E Bonds with a principal of P10,000 was redeemed by SMB on April 12, 2019.

Unamortized debt issue costs amounted to P12 and P21 as at December 31, 2020 and 2019, respectively.

- i. The amount represents P7,300 fixed rate bonds (the “Bonds”) issued by SLTC on May 22, 2015, divided into: (i) Series A Bonds, due in 2020 with an interest rate of 4.9925% per annum; (ii) Series B Bonds, due in 2022 with an interest rate of 5.5796% per annum; and, (iii) Series C Bonds, due in 2025 with an interest rate of 6.4872% per annum. Interest is payable every 22nd of February, May, August and November of each year.

The proceeds from the issuance were used to prepay peso-denominated Corporate Notes drawn in 2012.

The Bonds were listed in the PDEX.

The Series A Bonds with a principal of P2,400 was redeemed by SLTC on August 24, 2020.

Unamortized debt issue costs amounted to P23 and P35 as at December 31, 2020 and 2019, respectively.

- j. The amount represents the drawdown by SCPC on June 28, 2017 of the Tranche A and Tranche B amounting to P42,000 and the remaining balance of Tranche B amounting to P2,000 on January 31, 2018, from its P44,000 Omnibus Loan and Security Agreement (OLSA) dated June 22, 2017 with various banks.

Proceeds from the loan were used for the settlement of the US\$360 short-term loan, acquisition of the 2x150 MW Limay Coal-fired Power Plant in Limay, Bataan from LETI, repayment of shareholder advances and financing of transaction costs relating to the OLSA. The loan is payable in 46 unequal quarterly installments commencing on the 9th month from initial advance for Tranche A, 36 unequal quarterly installments commencing on the 39th month from initial advance for Tranche B. Final repayment date is 12 years from initial advance.

The loan is subject to repricing on the seventh year from the date of initial advance.

Partial payments made amounted to P3,610 and P2,100 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P547 and P626 as at December 31, 2020 and 2019, respectively.

- k. The amount represents loan drawn by CCEC as at December 31, 2020, from its P31,000 OLSA dated December 15, 2014 with various banks.

Proceeds of the loan were used to partially finance the design, construction and the operation and maintenance of the Skyway Stage 3 Project. The loan is payable in 35 unequal consecutive quarterly installments starting on the earlier of March 30, 2020 or one quarter after issuance of toll operation certificate by TRB. Final repayment date is 12 years after initial drawdown date.

Payments made amounted to P679 as at December 31, 2020.

The drawdown includes payable to BOC amounting to P3,619 and P3,700 as at December 31, 2020 and 2019, respectively (Note 33).

Unamortized debt issue costs amounted to P272 and P324 as at December 31, 2020 and 2019, respectively.

- l. The amount represents the P11,000 and P17,300 loan drawn by AAIPC on various dates in 2020 and December 16, 2019, respectively, from its P41,200 Corporate Notes Facility Agreement dated December 9, 2019 with various local banks.

Proceeds of the loan were mainly used to refinance existing debt obligations, invest and/or advance for infrastructure projects, for general corporate requirements and finance transaction related fees, taxes and expenses. The loan is payable in 40 quarterly installments commencing on the third month from initial issue date. Final repayment date is 10 years from initial issue date.

The Notes are subject to repricing on the fifth year from initial issue date.

Payments made amounted to P1,140 as at December 31, 2020.

Unamortized debt issue costs amounted to P360 and P580 as at December 31, 2020 and 2019, respectively.

- m. The amount represents loan drawn by SMCPD as at December 31, 2020, from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

The proceeds were used by SMCPD for the repayment of short-term loan used to fund the design, construction and operation of the Malita, Davao Power Plant and payment of transaction-related fees and expenses.

Payments made amounted to P2,592 and P1,296 as at December 31, 2020 and 2019, respectively.

The drawdown includes payable to BOC amounting to P2,811 and P3,005 and as at December 31, 2020 and 2019, respectively (Note 33).

Unamortized debt issue costs amounted to P296 and P335 as at December 31, 2020 and 2019, respectively.

- n. The amount represents the drawdown by SMC on June 24, 2019 from its term loan facility amounting to P16,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9375% per annum payable quarterly. The proceeds were used for general corporate purposes.

SMC paid the scheduled amortizations amounting to P240 and P80 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P99 and P113 as at December 31, 2020 and 2019, respectively.

- o. The amount represents the drawdown by SMC Global on April 26, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9265% per annum, payable quarterly. The proceeds were used for debt refinancing.

Payments made amounted to P450 and P300 pursuant to the loan agreement as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P82 and P103 as at December 31, 2020 and 2019, respectively.

- p. The amount represents the drawdown by SMCTC on December 19, 2019 amounting to P12,000 from its P42,000 Second Amendment to the OLSA dated December 16, 2019 with various local banks.

Proceeds of the loan were used for consolidation of project loans, releveraging the project, repayment of certain shareholder advance and partial financing of operation and maintenance of the project. The loan is payable in 39 quarterly installments commencing on the third month from initial drawdown. Final repayment date is 11 years and 9 months from initial drawdown.

The loan is subject to repricing on the fifth year from date of initial drawdown.

Payments made amounted to P360 as at December 31, 2020.

Unamortized debt issue costs amounted to P124 and P90 as at December 31, 2020 and 2019, respectively.

- q. The amount represents the drawdown by SMB on December 19, 2019 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 4.63% per annum payable quarterly. The proceeds were used for general corporate purposes.

Unamortized debt issue costs amounted to P61 and P75 as at December 31, 2020 and 2019, respectively.

- r. The amount represents the loan drawn by SMFI amounting to P8,000 and P10,000 in 2020 and 2019, respectively, from its term loan facility amounting to P18,000. The loan is amortized for 10 years and is subject to a floating interest rate based on BVAL plus margin or BSP Term Deposit Auction Facility overnight rate plus margin, whichever is higher with a one-time option to convert to a fixed interest rate. The proceeds were used to refinance its existing short-term obligations, fund capital expansion projects and for other general corporate requirements.

On December 14, 2020, SMFI exercised its one-time option to convert to fixed interest rate for its P10,000 loan.

Unamortized debt issue costs amounted to P68 as at December 31, 2020, for the fixed interest loan.

Unamortized debt issue costs for the floating interest amounted to P56 and P75 as at December 31, 2020 and 2019, respectively, for the floating interest loan.

- s. The amount represents the drawdown by Petron on July 25, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 5.5276% per annum payable quarterly. The proceeds were used to refinance the short-term loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-fired Power Plant.

Payments made amounted to P6,965 and P4,821 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P27 and P43 as at December 31, 2020 and 2019, respectively.

- t. The amount represents the drawdown by Vertex amounting to P1,100 and P6,400 in 2016 and 2015, respectively, from its P7,500 OLSA dated July 8, 2014. Proceeds of the loan were used to finance the construction of the NAIA Expressway. The loan is payable in 32 unequal consecutive quarterly installments commencing on the period ending the earlier of 24 months from initial drawdown date or the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 10 years after initial drawdown date.

The drawdown includes payable to BOC amounting to P1,342 and P1,552 as at December 31, 2020 and 2019, respectively (Note 33).

Payments made amounted to P2,469 and P1,681 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P28 and P40 as at December 31, 2020 and 2019, respectively.

- u. The amount represents the drawdown by Petron on December 29, 2017 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance working capital requirements.

Payments made amounted to P5,000 and P2,500 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P10 and P21 as at December 31, 2020 and 2019, respectively.

- v. The amount represents the drawdown by Petron on April 27, 2020 from its term loan facility amounting to P5,000. The loan is amortized over five years and is subject to a fixed interest rate of 4.59% per annum payable quarterly. The proceeds were used for general corporate purposes.

Unamortized debt issue costs amounted to P30 as at December 31, 2020.

- w. The amount represents the drawdown of the first tranche by LCWDC in 2018 amounting to P4,200 from its P5,400 OLSA dated September 16, 2016 with various local banks.

Proceeds of the loan were used for the Bulacan Bulk Water Supply Project.

The loan is subject to repricing on the seventh year from the initial drawdown date.

Payments made amounted to P105 and P21 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P31 and P36 as at December 31, 2020 and 2019, respectively.

- x. The amount represents the drawdown by Petron on October 13, 2015 amounting to P5,000 from its term loan facility. The loan is amortized over seven years with a two-year grace period and is subject to a fixed interest rate of 5.4583% per annum payable quarterly. The proceeds were used to repay maturing obligations and for general corporate requirements.

Payments made amounted to P3,000 and P2,000 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P2 and P5 as at December 31, 2020 and 2019 respectively.

- y. The amount represents the P2,000 seven-year term loan availed by SMMI on December 19, 2019. The loan is amortized for seven years and is subject to a floating interest rate based on BVAL plus margin with a one-time option to convert to a fixed interest rate within two years. The proceeds of the loan were used to refinance existing short-term loans, fund its capital expenditure requirements for the upgrade or expansion of its production facilities and/or finance other general corporate requirements.

On December 19, 2020, SMMI exercised its option to convert the interest rate from floating to fixed. As a result, the interest rate was fixed at 3.2837% per annum.

Unamortized debt issue costs amounted to P13 and P15 as at December 31, 2020 and 2019, respectively.

- z. The amount represents drawdown by SMCSLC in 2011 amounting to P1,500, from a local bank, which was used for working capital requirements. The said loan was rolled-over for five years in July 2016.

Unamortized debt issue costs amounted to P1 and P2 as at December 31, 2020 and 2019, respectively.

- aa. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of the 27th month from initial drawdown date or the third month from the date of receipt by SIDC of the financial completion certificate for the Project.

Payments made amounted to P2,154 and P1,682 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P4 and P8 as at December 31, 2020 and 2019, respectively.

- bb. The amount represents drawdown by GSMI on December 28, 2020 from its term-loan facility amounting to P500. The loan is amortized over three years and is subject to a fixed interest rate of 4.2105% per annum payable quarterly. The proceeds were used for general corporate requirements.

Unamortized debt issue costs amounted to P4 as at December 31, 2020.

- cc. The amount represents the outstanding loan of PPC with a local bank payable in 16 semi-annual installments over a period of 10 years, inclusive of a two-year grace period, starting from December 1997. PPC was unable to pay the installments. Management is currently developing and discussing a plan with the creditor to amend the loan repayment terms and provisions to enable PPC to continue to meet its obligation from cash generated by operations.

- dd. The amount represents P10,000 Fixed-Rate Notes due in 2020 issued by SMC on May 25, 2018. The Fixed-Rate Notes were listed on the same date with the PDEX, with an interest rate of 5.25% per annum payable every 25th of February, May, August and November of each year.

Proceeds from the Fixed-Rate Notes were used to partially refinance various loans and partially invest in existing businesses of the subsidiaries of SMC.

SMC redeemed the Fixed-Rate Notes on May 25, 2020.

Unamortized debt issue costs amounted to P25 as at December 31, 2019.

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

Payments made amounted to P118 as at December 31, 2019.

The loan was fully paid on September 24, 2020.

Unamortized debt issue costs amounted to P5 as at December 31, 2019.

- ff. The amount represents the P11,500 Corporate Notes Facility drawn by MTDME in 2012 with various banks. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US\$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022.

The drawdown includes payable to BOC amounting to P59 as at December 31, 2019 (Note 33).

Payments made amounted to P11,108 in 2019.

The loan was fully paid on March 16, 2020.

Unamortized debt issue costs amounted to P1 as at December 31, 2019.

- gg. The amount represents the drawdown of SMYPC from its term loan facility amounting to P5,000. The loan is amortized for five years and is subject to a floating interest rate based on BVAL plus margin payable quarterly. The proceeds were used to refinance existing short-term loans.

Payments made amounted to P553 as at December 31, 2020.

Unamortized debt issue costs amounted to P28 as at December 31, 2020.

- hh. The amount represents drawdowns by SMYAC from its term loan facility amounting to P4,000. The term of the loan is for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements.

On March 1, 2020, the balance of the loan was transferred to SMYPC following the merger (Note 5).

Payments made amounted to P773 and P240 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P11 and P20 as at December 31, 2020 and 2019, respectively.

- ii. The amount represents drawdowns by SMYAC of P1,449 and P551 in 2020 and 2019, respectively from its term loan facility amounting to P2,000. The loan is amortized for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements.

On March 1, 2020, the balance of the loan was transferred to SMYPC following the merger (Note 5).

Payments made amounted to P80 as at December 31, 2020.

Unamortized debt issue costs amounted to P11 and P4 as at December 31, 2020 and 2019, respectively.

- jj. The amount represents series of drawdowns in 2014 and 2013, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter.

TADHC paid P1,419 and P940 as at December 31, 2020 and 2019, respectively, as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P2 and P4 as at December 31, 2020 and 2019, respectively.

- kk. The amount represents the total outstanding loan drawn in various tranches by MPPCL from its ORA dated December 28, 2012, with various local banks. The proceeds of the loan were used to refinance its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL. The loan is divided into fixed interest tranche amounting to US\$163 and US\$194 as at December 31, 2020 and 2019, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$54 and US\$65 as at December 31, 2020 and 2019, respectively. The loan will mature on January 23, 2023.

Unamortized debt issue costs amounted to P7 and P15 as at December 31, 2020 and 2019, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P2 and P5 as at December 31, 2020 and 2019, respectively, for the floating interest tranche.

- ii. The amount represents the drawdown of US\$800 Notes (the “Notes”) issued on April 19, 2013, from the US\$2,000 Medium Term Note (MTN) Programme of SMC. The Notes were listed on the same date in the SGX-ST, with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing of US\$ denominated loans, working capital and general corporate purposes.

In 2015, SMC purchased US\$284 out of US\$400 Notes offered for purchase in a tender offer.

Unamortized debt issue costs amounted to P92 and P128 as at December 31, 2020 and 2019, respectively.

- mm. The amount represents the drawdown by SMC of US\$50 and US\$1,950 on December 27, 2019 and March 19, 2020, respectively, from its term loan facility amounting to US\$2,000. The term of the loan is for five years and is subject to a floating interest rate. The proceeds of the loans will be used for general corporate purposes.

Unamortized debt issue costs amounted to P2,132 and P168 as at December 31, 2020 and 2019, respectively.

- nn. The amount represents the drawdown by SMC Global on March 15, 2018 and March 16, 2018 from its US\$500 term facility and US\$700 term loan facility, respectively.

The US\$700 term loan facility is divided into Facility A Loan amounting to US\$200 maturing on March 12, 2021 and Facility B Loan amounting to US\$500 maturing on March 13, 2023.

The proceeds were used to partially finance the acquisition of the Masinloc Group.

SMC Global fully paid the US\$500 term facility as at December 31, 2019.

Unamortized debt issue costs amounted to P310 and P521 as at December 31, 2020 and 2019, respectively.

- oo. In May and July 2019, Petron availed of US\$536 and US\$264 loans, respectively, from its US\$800 term loan facility. The loan is amortized for five years with a two-year grace period and subject to a floating interest rate. The proceeds were used to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to partially prepay its existing US\$1,000 term loan and for general corporate purposes.

Payments made amounted to US\$115 as at December 31, 2020.

Unamortized debt issue costs amounted to P562 and P600 as at December 31, 2020 and 2019, respectively.

- pp. The amount represents the drawdown by SMC on March 16, 2018 from its term loan facility amounting to US\$400. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund the subscription of RPS in SMC Global to partially finance the acquisition of Masinloc Group of Companies.

Unamortized debt issue costs amounted to P218 and P311 as at December 31, 2020 and 2019, respectively.

- qq. The amount represents the drawdown by SMC on June 26, 2018 from its term loan facility amounting to US\$300. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund general corporate requirements and/or additional investments to its subsidiaries.

Unamortized debt issue costs amounted to P146 and P201 as at December 31, 2020 and 2019, respectively.

- rr. The amount represents the drawdown by SMC of US\$120 and US\$180 on September 25, 2018 and October 25, 2018, respectively, from its term loan facility amounting to US\$300. The term of the loans is for five years and is subject to a floating interest rate. The proceeds were used to refinance existing US dollar-denominated obligations and/or for general corporate requirements.

Unamortized debt issue costs amounted to P163 and P219 as at December 31, 2020 and 2019, respectively.

- ss. The amount represents the drawdown of US\$600 and US\$400 by Petron on June 28, 2017 and October 10, 2017, respectively, from its US\$1,000 term loan facility, which was signed and executed on June 16, 2017. The loan is subject to a floating interest rate plus spread and is amortized over five years with a two-year grace period. The proceeds were used to fully pay the outstanding loan balances.

Payments made amounted to US\$715 and US\$345 as at December 31, 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P170 and P276 as at December 31, 2020 and 2019, respectively.

- tt. The amount represents the drawdown by SMC on October 24, 2017 from its term loan facilities amounting to US\$300 entered into with various banks. The loans have various maturities and is subject to floating interest rate. The proceeds were used to fund general corporate requirements and/or partially repay existing loans.

In 2020, SMC paid the scheduled amortization amounting to US\$80.

Unamortized debt issue costs amounted to P75 and P120 as at December 31, 2020 and 2019, respectively.

- uu. The amount represents the drawdown by SMC on November 21, 2018 from its term loan facility amounting to US\$200. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to repay existing US dollar-denominated obligations.

Unamortized debt issue costs amounted to P111 and P146 as at December 31, 2020 and 2019, respectively.

- vv. The amount represents total outstanding loan drawn in various tranches by MPPCL from its OEFA dated December 1, 2015, with various local banks, to finance the construction of the additional 335 MW coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche amounting to US\$376 and US\$362 as at December 31, 2020 and 2019, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$124 and US\$119 as at December 31, 2020 and 2019, respectively. The loan will mature on December 16, 2030.

Unamortized debt issue costs amounted to P271 and P339 as at December 31, 2020 and 2019, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P90 and P96 as at December 31, 2020 and 2019, respectively, for the floating interest tranche.

- ww. The amount represents the drawdown by Petron on August 26, 2020 from its term loan facility amounting to US\$150 with various banks. The loan is amortized for three years and is subject to a floating interest rate based on LIBOR plus margin payable (1, 3, or 6) months as selected by the borrower. The proceeds were used to prepay part of its US\$ term loan.

Unamortized debt issue costs amounted to P201 as at December 31, 2020.

- xx. The amount represents the drawdown by Petron on April 22, 2020 from its term loan facility amounting to JPY15,000 with various banks. The loan is amortized over five years and is subject to a floating interest rate based on JPY LIBOR plus a spread payable every 1, 3 or 6 months as selected by the borrower. The proceeds of the loan were used to partially prepay its US\$1,000 term loan facility.

Unamortized debt issue costs amounted to P142 as at December 31, 2020.

- yy. The amount represents AU\$80 loan drew by SMYA on July 31, 2019 from AU\$100 syndicated facility agreement entered into by SMYA on July 23, 2019. The loan is amortized over five years and is subject to interest based on BBSY rate plus margin. Proceeds of the loan were used to refinance maturing short-term obligations and general corporate purposes.

Unamortized debt issue costs amounted to P36 and P43 as at December 31, 2020 and 2019, respectively.

- zz. The amount represents total outstanding loans drawn in various tranches by INSA Alliance Sdn. Bhd., a subsidiary of SMYPIL, in 2015 to 2017 with various local banks, to finance working capital requirements. The loans are divided into fixed interest tranche and floating interest tranche based on COF plus margin. The loans under fixed interest tranche were prepaid on March 11, 2019. The loans under floating interest tranche have various maturities with the earliest one maturing on July 31, 2021 and the last one maturing on October 31, 2027.

The gross amount of long-term debt payable to BOC amounted to P9,653 and P10,676 as at December 31, 2020 and 2019, respectively (Note 33).

On July 11, 2019, the BOD of SMC approved the conduct of a consent solicitation process for the holders of the US\$800 4.875% Notes due in 2023, of which US\$516 are currently outstanding, and to the holders of record as at November 14, 2019 of the following debt securities namely: (i) 4.8243% Series A Bonds due in 2022, 5.284% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.25% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.125% Series G Bonds due in 2028; and (iv) 5.25% Fixed Rate Notes due in 2020, to the amendments to certain terms and conditions in the respective trust agreements.

The objective of the consent solicitation is to align the covenants and provisions of the Debt Securities with the relevant covenants and provisions of: (i) the P10,000 retail bond of SMC listed on October 4, 2019; and (ii) the US\$2,000 Syndication Agreement dated December 18, 2019 relating to the US\$1,750 Facility Agreement dated September 27, 2019.

SMC obtained the consents in connection with the consent solicitation for its Corporate Notes and Fixed Rate Corporate Bonds held from November 5 to December 18, 2019.

The supplemental trust agreements amending the trust agreements covering the Series A, B, C bonds, Series D bonds, Series E, F, G bonds and the two-year FXCN were executed by SMC and the respective trustees of the said bonds on December 26, 2019.

On November 28, 2019, majority of the holders of the US\$800 4.875% Notes due in 2023, of which US\$516 are currently outstanding, passed the Extraordinary Resolution amending certain terms and conditions of the Notes and in the Trust Deed of the Notes in order to align the covenants and provisions of the Notes with the relevant covenants and provisions of: (i) the P10,000 retail bond of SMC listed on October 4, 2019; and (ii) the US\$1,750 syndicated term loan facility.

The Supplemental Trust Deed amending certain terms and conditions of the Notes and the Trust Deed has been executed on November 29, 2019.

The debt agreements contain, among others, covenants relating to merger and consolidation, negative pledge, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries, payments of dividends and redemption of capital stock. Also, certain agreements of a subsidiary include a one-time automatic waiver of compliance with financial ratios upon written notice to the lenders and without need of further action from the latter.

The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as at December 31, 2020 and 2019.

The movements in debt issue costs are as follows:

	Note	2020	2019
Balance at beginning of year		P7,345	P6,848
Additions	18	3,308	2,577
Amortization	30	(2,282)	(1,968)
Reclassification, capitalized and others		(122)	(112)
Balance at end of year		P8,249	P7,345

Repayment Schedule

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

Year	Gross Amount	Debt Issue Costs	Net
2021	P75,400	P846	P74,554
2022	99,938	991	98,947
2023	193,921	2,015	191,906
2024	201,920	3,034	198,886
2025 and thereafter	204,031	1,363	202,668
Total	P775,210	P8,249	P766,961

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 39.

22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	Note	2020	2019
Payables on the purchase of shares of stock		P13,230	P14,874
Amounts owed to related parties	33	7,277	7,483
Retirement liabilities - noncurrent	35	6,753	6,501
ARO	4	3,735	2,217
Retention payable - noncurrent		3,243	1,702
Derivative liabilities - noncurrent	4, 39, 40	2,167	1,444
Cash bonds		947	750
IRO	4	730	640
Cylinder deposits		617	608
Concession liabilities		91	94
Obligation to ROP - service concession agreement	4, 34	66	76
MRO and decommissioning	4, 5	65	19
Redeemable preferred shares	4	-	19
Others		730	698
	39, 40	P39,651	P37,125

Payables on the Purchase of Shares of Stock. These amounts include: (a) the unpaid balance of the purchase price of PPC shares and the Tranche B receivables in accordance with the terms of the Amended and Restated Definitive Agreement (ARDA); and (b) advances made by Privatization Management Office (PMO) for the settlement of the liabilities of PPC.

- a. The ARDA and Supplemental ARDA were executed on May 10, 1996 and May 2, 1997, respectively, and amended on September 27, 1999, for PIC's acquisition from PMO of the PPC Shares and the Tranche B receivables for a total purchase price of US\$334 less US\$70, representing the stipulated amount of PPC's liabilities to its creditors excluding the National Government. The said purchase price is payable subject to various provisions of the ARDA as follows: (1) US\$260 payable in 23 successive semi-annual installments, of which no payments have been made as at December 31, 2020 and 2019; and (2) US\$4 payable in 171 monthly installments, the amortization payments of which started in August 1996 to April 2001 for a total of US\$1.

Among others, the payment of the purchase price is subject to the following provisions:

- PIC shall pay an installment only if, during the six-month period ending one month prior to an installment payment date (or such applicable date), the average London Metal Exchange (LME) price for nickel shall be higher than PIC's cash break-even price for such period. Notwithstanding the foregoing provision, if PPC's cash available for payments to PMO (as defined in the ARDA) shall not be sufficient to pay the whole installment, then PIC shall pay only such portion of the installment as shall be equal to PIC's cash available for payments to PMO and the unpaid portion shall be deferred to the next succeeding installment payment date.
- In the event that the payment of an installment, or a portion thereof, is deferred pursuant to the above provisions, PIC shall accrue interest thereon beginning on the date the installment was originally due until paid in full at an interest rate equivalent to the six-month LIBOR for dollar deposits. All interest accrued on this provision shall be paid by PIC to PMO on the installment payment date immediately following the six months period during which the average LME price for nickel is higher than PPC's cash break-even price.
- At least fifty percent of the portion of the purchase price shall be paid by PIC at the end of the ninth year after Final Notice (as defined in the ARDA) and the balance at the end of the 15th year after Final Notice, even if the average LME price for nickel shall be equal or lower than PIC's cash break-even price for such period.

As security for the payment of the said purchase price in accordance with the terms of the ARDA, PIC pledged the shares of PPC to PMO on May 2, 1997. PIC shall also pledge to the PMO the preferred shares to be received from PPC upon the conversion of the Tranche B receivables to equity.

On September 27, 1999, through an Amendment Agreement of the ARDA, the entire obligation of PIC under the ARDA was restructured and the cash break-even price formulated on May 2, 1997 was deleted as PIC and PMO shall establish a new cash break-even price formula which reflects the appropriate cost centers for a nickel refinery based on a pressure acid leach technology. As at December 31, 2020, the cash break-even price formula has not yet been established because the said formula may be established only upon commercial operations of the proposed new nickel refinery which has yet to be established.

In 2003, PIC filed a case with the Regional Trial Court of Makati (Court) for: (i) the suspension of payments under the ARDA; (ii) to stop PMO from enforcing the provisions under the ARDA providing for automatic reversion of PPC shares to PMO; and (iii) for the court to fix a period of payment. The court granted PIC's application and issued a Writ of Preliminary Injunction to enjoin PMO from enforcing the said automatic reversion of clause. The issues relating to the injunction orders and the validity of the automatic reversion clause were subsequently appealed to the Supreme Court, which, in a Decision dated August 27, 2014, declared that the automatic reversion clause constituted pactum commissorium and, thus, null and void. Accordingly, the Writ of Preliminary Injunction issued by the Court against the enforcement of the automatic reversion clause was made final and permanent. In the meantime, in the course of the proceedings before the trial court, PIC filed a Motion for Summary Judgment in December 2015 praying for the trial court to resolve the only remaining issue of fixing the period for payment and performance by PIC of its obligations to PMO under the ARDA. Through an order dated September 14, 2016, the RTC of Makati City granted PIC's Motion for Summary Judgment and fixed the period for PIC to pay its obligations to PMO. Thereafter, PMO filed an appeal with the Court of Appeals challenging the Order of the Makati RTC. On March 2, 2018, the Court of Appeals issued a Resolution stating that the appeal is considered submitted for decision. On February 27, 2019, the Court of Appeals issued a decision denying the appeal of PMO and affirming the Summary Judgment rendered by the RTC of Makati City in favor of PIC.

On January 17, 2020, PMO filed a Petition for Certiorari docketed as G.R. No. 251138 and assigned to Third Division. PIC's legal team will forthwith file for a Motion to Dismiss. As of December 31, 2020, the Supreme Court has not issued any decision on the motion filed by PMO.

PIC has not accrued interest on the unpaid monthly installments as management believes that interest is not due to the PMO since the cash break-even price has not yet been established, and the PIC has no cash available for payment to the PMO as defined in the ARDA.

- b. The amounts owed to PMO consist of the advances made by PMO for the settlement of the liabilities of PPC amounting to P1,410 and P1,582 as at December 31, 2020 and 2019, respectively. The advances will be paid by PIC in behalf of PPC and shall be payable, without interest, in 23 successive semi-annual installments with a three and a half year grace period, from the date of the Amendment Agreement to the ARDA or over a total period of 15 years inclusive of the grace period. The first installment should have been paid on September 27, 2003. No payments were made for the said advances since 2009.

Day 1 gain was recognized on the amounts owed to PMO, which does not carry interest. The amount of day 1 gain was determined as the difference between the proceeds of the amounts owed to PMO and its fair value. The fair value was measured as the present value of estimated cash flows discounted at prevailing market interest rates. The fair value was re-measured on January 1, 2020 based on the new cash flows projected by the management (Note 32).

Accrual for Mine Rehabilitation and Decommissioning. The Contingent Liability and Rehabilitation Fund Steering Committee, having approved the Final Mine Rehabilitation and/or Decommissioning Plan (FMR/DP) of the Group's nickel refinery, granted the Certificate of Approval dated February 24, 2010 to the Group, after the Group has substantially complied with the FMR/DP requirements.

The Group's recognized accrual for mine rehabilitation and decommissioning costs includes the future cost of rehabilitating the mine site and the related production facilities for the development of mines or installation of those facilities amounting to P19 as at December 31, 2020 and 2019.

"Others" include customers deposits, deferred rent, liability to a contractor and supplier and amounts owed by PPC to creditors amounting to P81 and P74 as at December 31, 2020 and 2019, respectively, conforming to debt restructuring and other noncurrent payables. These creditors have agreed to the settlement proposal of PIC which provides for the deferral of payment of the principal obligations over a number of years. These amounts are payable, without interest, over 10 years in 17 semi-annual installments commencing two years after the resumption of commercial operations.

23. Income Taxes

The components of income tax expense are shown below:

	2020	2019	2018
Current	P15,541	P22,701	P22,739
Deferred	292	6,208	1,976
	P15,833	P28,909	P24,715

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

2020	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,615	P145	P -	(P18)	P4,742
MCIT	876	261	-	-	1,137
NOLCO	1,750	9,102	-	-	10,852
Undistributed net earnings of foreign subsidiaries	(1,040)	(64)	37	105	(962)
Leases	(11,233)	(5,860)	-	(11)	(17,104)
Unrealized intercompany charges and others	(44,553)	(3,876)	91	195	(48,143)
	(P49,585)	(P292)	P128	P271	(P49,478)

2019	Balance at January 1	Adjustment Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,748	P -	(P196)	P -	P63	P4,615
MCIT	115	-	761	-	-	876
NOLCO	2,102	-	(352)	-	-	1,750
Undistributed net earnings of foreign subsidiaries	(1,129)	-	102	40	(53)	(1,040)
Leases	(7,747)	1,194	(4,707)	-	27	(11,233)
Unrealized intercompany charges and others	(43,723)	-	(1,816)	1,113	(127)	(44,553)
	(P45,634)	P1,194	(P6,208)	P1,153	(P90)	(P49,585)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2020	2019
Deferred tax assets	4	P21,262	P18,431
Deferred tax liabilities		(70,740)	(68,016)
		(P49,478)	(P49,585)

As at December 31, 2020, the NOLCO and MCIT of the Group, which are presented as part of “Deferred tax assets” account in the consolidated statements of financial position, that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2018	December 31, 2021	P33	P16
2019	December 31, 2022	283	57
2020	December 31, 2025	35,857	1,064
		P36,173	P1,137

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

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

The reconciliation between the statutory income tax rate on income from continuing operations before income tax and the Group’s effective income tax rate is as follows:

	2020	2019	2018
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(4.70%)	(4.14%)	(3.11%)
Equity in net loss (earnings) of associates and joint ventures	(0.32%)	(0.04%)	0.12%
Loss (gain) on sale of investments subject to final or capital gains tax	0.37%	0.09%	(0.11%)
Others, mainly income subject to different tax rates - net	14.78%	11.40%	8.62%
Effective income tax rate	40.13%	37.31%	35.52%

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

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

One of the key provisions of the bill that may affect the consolidated financial statements of the Group is an immediate 5%-10% point cut in the CIT rate starting July 2020.

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

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

The bicameral committee approved the bill on February 1, 2021. As at March 11, 2021, the bill is yet to be approved by the President of the Philippines.

The estimated impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which will be taken up upon the effectivity of the CREATE law are as follows:

	Increase (decrease)
ASSETS	
Prepaid expenses and other current assets	P406
Investments and advances - net	11
Deferred tax assets	(4,382)
	(P3,965)
LIABILITIES	
Income and other taxes payable	(P875)
Deferred tax liabilities	(6,759)
	(7,634)
EQUITY	
Equity reserves	176
Retained earnings	2,148
Non-controlling interests	1,345
	3,669
TOTAL LIABILITIES AND EQUITY	(P3,965)
INCOME BEFORE INCOME TAX	
Equity in Net Earnings of Associates and Joint Ventures	P11
INCOME TAX EXPENSE	
Current	(1,281)
Deferred	(2,037)
	(3,318)
NET INCOME	P3,329
Attributable to:	
Equity holders of the Parent Company	P2,148
Non-controlling interests	1,181
	P3,329

24. Equity

- Capital Stock

Common Shares

On January 6, 2010, SMC acquired a 49% stake via equity infusion in the Parent Company consisting of its subscription to 2,401,960 common shares of the Parent Company's unissued capital stock. On January 7, 2010, the Parent Company issued 2,401,960 common shares to SMC at a price of P18,600.00 per share, resulting in additional paid-in capital of P44,436.

On July 16, 2013, the BOD and stockholders of the Parent Company approved the stock split of the Parent Company's common shares via change in the par value from P100.00 per share to P1.00 per share. As a result of such stock split, the issued and outstanding common shares increased from 4,901,960 to 490,196,000. The new authorized capital stock of the Parent Company amounted to P1,000 divided into 740,000,000 common shares with a par value of P1.00 per share and 2,600,000 preferred shares with a par value of P100.00 per share. The SEC approved such corporate action on August 16, 2013.

On October 17, 2013, the BOD and stockholders of the Parent Company approved the Amendment of Articles of Incorporation to include the relevant provisions on the lock-up requirements prescribed by the rules and regulations of the PSE which the Parent Company shall comply with, subject to any waiver or exemption that may be granted by the PSE, in connection with the Parent Company's initial listing by way of introduction on the PSE of the Parent Company's 490,196,200 common shares. The SEC approved the aforesaid amendment on November 8, 2013.

On December 18, 2013, the PSE approved the application of the Parent Company for the listing by way of introduction of all its common shares. The shares were listed on the PSE on January 13, 2014.

The Parent Company has 330,325,136 (net of 2,561,031 common shares held by SMC) issued and outstanding common shares, and has 31,284 and 31,352 common shareholders as at December 31, 2020 and 2019, respectively.

Preferred Shares

On October 22, 2010, the Parent Company issued the stock certificates covering SMC's investment in 2,598,040 preferred shares at a price of P18,600.00 per share, resulting in additional paid-in capital of P48,064.

The preferred shares have a par value of P100.00 per share and are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings.

The preferred shares do not carry the right to vote except in the cases expressly provided by law. These are redeemable in whole or in part, at the sole option of the Parent Company, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders.

The preferred shares are entitled to participate and share in the retained earnings remaining after payment of the preferential dividends at the same rate as the common shares.

Dividends in arrears on the 3% cumulative and participating preferred shares amounted to P266 and P531 in 2020 and 2019, respectively.

There were no movements in the number of issued and outstanding preferred shares of stock in 2020 and 2019.

- CPS

On June 30, 2016, the Parent Company issued Philippine Peso-denominated CPS with an aggregate face value of P25,883 in favor of BCIL. The Parent Company incurred transaction cost amounting to P725. The CPS entitles the security holder to a cumulative preferential distribution at 6.25% per annum on the face value amount, payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2016. The security holders have the option to convert the CPS into preferred shares of the Parent Company at any time on or after July 31, 2019. As at December 31, 2020, BCIL did not exercise the option to convert the CPS into preferred shares of the Parent Company.

Proceeds from the sale of the securities were used by the Parent Company for payment of a US\$550 long-term debt on June 30, 2016.

Preferential dividends in arrears on CPS amounted to P7,280 and P5,662 as at December 31, 2020 and 2019, respectively.

- Treasury Shares

As at December 31, 2020, 2019 and 2018, treasury stock consist of:

Common:	
Receipt of own shares as property dividends	P28,001
Common shares of the Parent Company held by SMC	456
	28,457
Preferred:	
Redemption of preferred shares	12,899
Preferred shares of the Parent Company held by SMC	35,424
	48,323
	P76,780

On June 18, 2012, the Parent Company partially redeemed a total of 693,500 preferred shares out of the 2,598,040 preferred shares issued to SMC, at the total redemption price of P12,899, corresponding to the original issue price of the said preferred shares. The redeemed preferred shares are presented as part of "Treasury stock - preferred" account in the consolidated statements of financial position as at December 31, 2020 and 2019.

On October 17, 2013, the BOD of SMC approved the declaration, by way of property dividends, of 240,196,000 common shares of stock of the Parent Company to SMC common shareholders of record as at November 5, 2013, distributed on December 26, 2013.

The declaration of the property dividends eliminated the cross ownership between the Parent Company and SMC, which resulted in the consolidation of SMC effective October 17, 2013. The Parent Company, being a shareholder of SMC, received 157,310,033 of its own common shares equivalent to P28,001 recognized as “Treasury stock - common” and “Additional paid-in capital” accounts in the consolidated statements of changes in equity as at December 31, 2020, 2019 and 2018.

The remaining investments in the Parent Company held by SMC consisting of 2,561,031 common shares and 1,904,540 preferred shares amounting to P456 and P35,424, respectively, were recognized as “Treasury stock” account in the consolidated statements of financial position as at December 31, 2020 and 2019.

There were no movements in the treasury shares of the Parent Company in 2020, 2019 and 2018.

- Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P456 in 2020, 2019 and 2018, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

- Appropriated Retained Earnings

The BOD of certain subsidiaries approved additional appropriations amounting to P10,968, P8,651, and P10,006 in 2020, 2019 and 2018, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P6,837, P19,425 and P5,230 in 2020, 2019 and 2018, respectively.

25. Sales

Sales consist of:

	<i>Note</i>	2020	2019	2018
Goods		P708,136	P992,244	P995,621
Services		17,640	28,236	29,294
	6	P725,776	P1,020,480	P1,024,915

26. Cost of Sales

Cost of sales consist of:

	Note	2020	2019	2018
Inventories		P367,117	P565,264	P592,546
Taxes and licenses		82,648	95,775	79,119
Depreciation and amortization	28	30,850	32,930	32,122
Energy fees	34	20,365	26,417	25,424
Contracted services		15,130	16,037	16,393
Power purchases	34	13,006	21,565	11,321
Personnel	29	9,453	10,093	11,250
Freight, trucking and handling		9,260	12,003	11,817
Fuel and oil		8,367	15,508	23,979
Tolling fees	34	7,493	8,959	8,889
Repairs and maintenance		5,101	4,643	5,968
Communications, light and water		5,094	6,643	6,198
Rent	4, 34	419	566	945
Others		3,192	3,452	1,372
		P577,495	P819,855	P827,343

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2020	2019	2018
Selling	P33,409	P41,345	P42,718
Administrative	44,996	45,178	40,190
	P78,405	P86,523	P82,908

Selling expenses consist of:

	Note	2020	2019	2018
Personnel	29	P8,727	P10,022	P11,302
Freight, trucking and handling		8,293	10,484	9,853
Advertising and promotions		5,375	9,682	8,987
Depreciation and amortization	28	4,098	4,050	3,092
Rent	4, 34	1,878	1,819	3,694
Repairs and maintenance		1,278	1,505	1,449
Taxes and licenses		838	841	786
Supplies		557	575	663
Professional fees		518	659	683
Communications, light and water		420	464	494
Others		1,427	1,244	1,715
		P33,409	P41,345	P42,718

Administrative expenses consist of:

	Note	2020	2019	2018
Personnel	29	P21,165	P21,867	P18,645
Depreciation and amortization	28	7,755	7,451	5,196
Taxes and licenses		3,641	3,644	3,488
Professional fees		2,359	2,312	2,958
Impairment loss	8, 9, 18	1,785	1,071	1,024
Repairs and maintenance		1,688	2,086	1,330
Rent	4, 34	1,154	1,077	614
Supplies		905	774	655
Freight, trucking and handling		842	581	390
Communications, light and water		804	1,068	789
Research and development		50	152	152
Others	34	2,848	3,095	4,949
		P44,996	P45,178	P40,190

“Others” consist of entertainment and amusement, gas and oil and other administrative expenses.

28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	Note	2020	2019	2018
Cost of sales:				
Property, plant and equipment	13	P16,809	P19,340	P24,306
Right-of-use assets	14	6,341	6,178	-
Deferred containers, biological assets and others	15, 16, 17, 18	7,700	7,412	7,816
	26	30,850	32,930	32,122
Selling and administrative expenses:				
Property, plant and equipment	13	5,345	4,786	4,213
Right-of-use assets	14	1,098	1,255	-
Deferred containers and others	15, 17, 18	5,410	5,460	4,075
	27	11,853	11,501	8,288
		P42,703	P44,431	P40,410

“Others” include amortization of concession rights, mineral rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2020	2019	2018
Salaries and wages		P22,376	P22,267	P21,013
Retirement costs - net	35	1,832	1,203	2,004
Other employee benefits		15,137	18,512	18,180
		P39,345	P41,982	P41,197

Personnel expenses are distributed as follows:

	<i>Note</i>	2020	2019	2018
Cost of sales	26	P9,453	P10,093	P11,250
Selling expenses	27	8,727	10,022	11,302
Administrative expenses	27	21,165	21,867	18,645
		P39,345	P41,982	P41,197

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<i>Note</i>	2020	2019	2018
Interest expense		P45,349	P48,577	P38,781
Other financing charges	21, 35	5,345	5,153	3,985
		P50,694	P53,730	P42,766

Amortization of debt issue costs included in "Other financing charges" amounted to P2,282, P1,968 and P1,386 in 2020, 2019 and 2018, respectively (Note 21).

Interest expense on loans payable, long-term debt, lease liabilities and other liabilities is as follows:

	<i>Note</i>	2020	2019	2018
Loans payable	19	P7,473	P10,959	P7,524
Long-term debt	21	32,118	31,621	25,693
Lease liabilities	14, 34	5,080	5,912	5,238
Other liabilities		678	85	326
		P45,349	P48,577	P38,781

31. Interest Income

Interest income consists of:

	<i>Note</i>	2020	2019	2018
Interest from short-term investments, cash in banks and others	7, 12, 35	P5,854	P10,300	P6,728
Interest on amounts owed by related parties	33	333	388	483
		P6,187	P10,688	P7,211

32. Other Income (Charges)

Other income (charges) consists of:

	Note	2020	2019	2018
Construction revenue (a)	4, 17, 34	P22,747	P25,386	P23,062
Miscellaneous gain (b)	5, 43	7,971	1,430	-
Gain (loss) on foreign exchange - net	39	7,433	6,984	(11,723)
PSALM monthly fees reduction		2,581	1,171	1,615
Gain on fair valuation of investment	5, 11	894	727	-
Reversal of (additional provision on) impairment (c)	8, 13, 18	192	(1,573)	(771)
Dividend income		16	27	27
Construction costs (a)	4, 17, 34	(22,747)	(25,386)	(23,062)
Gain (loss) on derivatives - net	40	(5,007)	(3,308)	805
Others (d)	22	73	1,093	550
		P14,153	P6,551	(P9,497)

- a. The construction revenue recognized in profit or loss approximates the construction costs recognized. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs are recognized by reference to the stage of completion of the construction activity of toll road, airport, port and water concession rights as at reporting date.

- b. Miscellaneous gain consists of settlement received by the Group from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts (P3,826), income recognized by the Group from the Tax Credit Certificates (TCC) issued by the BIR in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light (Note 43) amounting to P3,382 and P1,430 in 2020 and 2019, respectively and the gain recognized from the consolidation of NCC amounting to P763 (Note 5).
- c. SMBHK and SMBB. In 2018, due to the fierce market competition in Hong Kong, SMB tested for impairment the related production plant located in Yuen Long, New Territories. SMB assessed the recoverable amounts of SMBHK's production plant and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P2,067. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P544.

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

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

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

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

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 5, in March 2020, SMBB has stopped operations and production activities after SMBIL and SMCIC, the shareholders of SMBB, passed a resolution approving the dissolution of SMBB. Accordingly, the Group assessed the recoverable amounts of SMBB's assets and determined that the carrying amounts of the assets are higher than their recoverable amounts. Impairment losses were recognized to reduce carrying amounts to recoverable amounts of property, plant and equipment and deferred expenses amounting to P903 in 2019. There were no impairment losses or reversals of previously recognized impairment losses in 2020 and 2018.

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.

- d. "Others" consist of rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO, insurance claims, casualty loss, loss on retirement of breeding stocks and expenses of closed facilities. This also includes SMYPC's inventory loss from the fire incident at its plastic plant located in Pandacan, Manila in February 2020 (P312) and the portion of the Sky Way Stage 3 Project of CCEC that was also damaged by the fire (P280), net of proceeds from insurance.

33. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. The Parent Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the consolidated total assets based on its latest audited financial statements.

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

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

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	20	2020	P -	P -	P -	P10,304	On demand;	Unsecured;
		2019	-	-	-	10,864	interest and	
		2020	-	-	-	221	non-interest bearing	
Retirement Plans	8, 35	2020	294	-	9,044	-	On demand;	Unsecured;
		2019	301	-	9,275	-	interest bearing	no impairment
		2020	2,086	18	761	29	On demand;	Unsecured;
Associates	8, 18, 20	2019	3,054	178	1,879	251	interest and	no impairment
		2020	-	-	-	16,925	non-interest bearing	
		2019	-	-	-	24,588	Less than 1 to 10 years;	Unsecured and secured
Joint Ventures	8, 18, 20	2020	272	1,484	742	521	On demand;	Unsecured;
		2019	364	959	755	56	non-interest bearing	no impairment
		2020	60	470	187	2,250	On demand;	Unsecured;
Shareholders in Subsidiaries	8, 20	2019	38	57	183	2,376	non-interest bearing	no impairment
		2020	1,730	2,574	492	7,288	On demand;	Unsecured;
		2019	2,492	2,468	457	7,539	non-interest bearing	no impairment
Total		2020	P4,442	P4,546	P11,226	P37,538		
Total		2019	P6,249	P3,662	P12,549	P45,895		

- Interest-bearing payable owed to a shareholder of the Parent Company, used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest per annum will accrue beginning on the relevant year when SMC has commenced the management and operations of its Manila International Airport Project. This payable has no definite payment terms and considered payable upon demand.
- Amounts owed by related parties consist of current and noncurrent receivable, advances to suppliers and deposits and share in expenses.
- Amounts owed to related parties consist of trade payables, professional fees and leases. As at December 31, 2020 and 2019, amounts owed to a related party for the lease of office space presented as part of "Lease liabilities - current portion" and "Lease liabilities - net of current portion" amounted to P6 and P5 and P6 and P10, respectively.
- The amounts owed to associates include interest bearing loans payable to BOC presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.
- The compensation of key management personnel of the Group, by benefit type, follows:

	Note	2020	2019	2018
Short-term employee benefits		P477	P689	P742
Retirement cost	35	31	20	8
		P508	P709	P750

34. Significant Agreements and Lease Commitments

Significant Agreements:

- Energy
 - *IPPA Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;
- ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;
- v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. maintain the performance bond in full force and effect with a qualified bank; and

- vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P20,365, P26,417 and P25,424 in 2020, 2019 and 2018, respectively (Note 26). SMEC and SPDC renewed their performance bonds amounting to US\$58 and US\$20, which will expire on November 3, 2021 and January 25, 2022, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 43).

- o *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC, SCPC, SMELC, SMCP, MPPCL and SPESC each entered into separate MPAs with Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL amounted to P185, P206 and P325 in 2020, 2019 and 2018, respectively (Note 27).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2021, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

- *PSA and RSCs*

SMEC, SPPC, SPDC, SMCP, SCPC, SMELC, Strategic Energy Development Inc. and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include DUs, electric cooperatives, third party Retail Electricity Supplier (RES) and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term offtake contracts, which may have provisions for take-or-pay, passing on fuel costs, foreign exchange differentials or certain other fixed costs and minimum offtake level. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

On March 2, 2021, Excellent Energy Resources Inc. (EERI) and MPPCL have executed long-term PSAs with Meralco for the supply and delivery of 1,200 MW and 600 MW contract capacity starting in November 2024 and April 2025, respectively. These PSAs have been filed with the ERC for approval.

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL can also purchase power from WESM or other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P12,918, P21,435 and P11,181 in 2020, 2019 and 2018, respectively (Note 26).

- *Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. The MOA was extended for another two years and expired on March 25, 2020.

- *Ancillary Service Procurement Agreement (ASPA)*

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of five years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

- o *Coal Supply Agreements*

SMEC, SMCP, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

- o *Distribution Wheeling Service (DWS) Agreements*

As RES, SMELC, SCPC and MPPCL each entered into DWS Agreements with certain DUs for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to the contestable customers who have opted for a single billing arrangement as provided in the ERC Supplemental Switching Rules.

- o *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 28, 2014, SMC Global and APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

- i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement and (b) the amount of P2 every quarter for the upkeep of residual ALECO (fixed concession fee);
- ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049;
- iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and
- iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

- o COC

Daguma Agro-Minerals, Inc. (DAMI)'s coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68 million metric tons as at December 31, 2020.

Sultan Energy Phils. Corp. (SEPC) has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As at December 31, 2020, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

Bonanza Energy Resources, Inc. (BERI)'s COC No. 138, issued by the DOE, is located in Sarangani and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 23 million metric tons as at December 31, 2020.

Status of Operations

The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another ten-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests of DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COC. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COC, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new five-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new five-year WPB which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring instead of considering another moratorium extension, the submission of a five-year WPB which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a ten-year extension of its COC No. 138 which will expire on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a five-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new five-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first two years of the five-year WPB submitted by DAMI, SEPC and BERI, focuses on the “removal of tension cracked materials to prevent landslide” within their respective COC areas as identified by Mines and Geosciences Bureau/DENR XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

- a. the mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;
- b. the mining method is “contour stripping and progressive rehabilitation” and not the banned “open-pit mining”;
- c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and
- d. the ban could be lifted as a result of court cases filed against it.

On March 2, 2019, DAMI, SEPC and BERI requested DOE for the consolidation of the three COCs for the following justifications:

- a. the coal seams, although of varying thickness are continuous from one COC to another and deal for interconnected contour strip mining due to nearly horizontal deposition;
- b. sulfur content vary over a wide range from less than one percent in the lower section of the thick seam in DAMI to over four percent in the Maitum blocks of BERI, and would require blending of the coal products from one COC to another in order to meet the acceptable market specification; and
- c. the coal resources and reserves vary greatly from one COC to another as the thickness and depth of the coal seams are variable, thus requiring stringent mine planning, operational efficiency and economic feasibility considerations.

However, on May 15, 2019, DAMI, SEPC and BERI clarified to the DOE that their request for consolidation of the three COCs was not meant to abandon nor withdraw the extension request of SEPC applied on September 21, 2018, having in mind the vested right provision of Section 21 of RA No. 11038 or the “Expanded National Integrated Protected Areas System Act of 2018”. Thus, DAMI, SEPC and BERI altogether declared that it is seeking for:

- a. the extension of COC of SEPC; and
- b. the consolidation of COC No. 126 and COC No.138 of DAMI and BERI, respectively, based on the justification set forth in the March 2, 2019 letter.

On December 11, 2019, the DOE approved the ten-year extension and the initial five-year WPB for COC No. 134 of SEPC.

On January 10, 2020, DAMI and BERI met with the Energy Resources Development Bureau representatives to discuss the proposed consolidated five-year WPB and the documentary requirements to effect consolidation of the two COCs.

On April 13, 2020, SEPC, DAMI and BERI reported to DOE inevitable delays in the implementation of their business plans, as embodied in their approved WPB of their respective COC due to the COVID-19 pandemic. This was followed on June 24, 2020 by a request for six months extension of the Work and Financial Commitments of SEPC, DAMI and BERI due to the continuing effects of the COVID-19 pandemic.

On August 28, 2020, DAMI and BERI submitted to DOE for approval a Deed of Assignment and Transfer conveying the agreement whereby BERI assigns and transfers its rights and obligations over COC No. 138 to DAMI. This is a requirement of the DOE for the consolidation of the COCs of BERI and DAMI.

On October 5, 2020, SEPC further requested that instead of only six months, its production years be extended by two years to enable recovery of its investment and maximize the recovery of its existing reserves.

As at March 11, 2021, SEPC’s request for a two-year extension of its present work program and the proposed DAMI and BERI Consolidated WPB are still under evaluation and are expected to be favorably considered and approved by the DOE.

Based on management’s assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as at December 31, 2020.

- Fuel and Oil

- *Supply Agreements*

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 57% of crude and condensate volume processed are from EMEPMI with balance of around 43% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as at December 31, 2020 and 2019 (Note 20).

- *Lease Agreement with Philippine National Oil Company (PNOC)*

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as at December 31, 2020 and 2019, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 43).

- Infrastructure
 - *Airport Concession Agreement*
 - i. *Boracay Airport*

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation (DOTr) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.
2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As at December 31, 2020, TADHC has yet to pay the OMPS as the Airport Project has not yet entered the In-Service Date.
3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.

4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to a loan with BOC. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained (Notes 21 and 33).
5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC of the works required to be carried out in connection with the construction and completion of civil, structural, sanitary, mechanical, electrical and architectural infrastructure. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium in 2020 for the Work Performance Security Security and is included as part of "Airport concession rights" under "Other intangible assets" account in the consolidated statements of financial position (Note 17). The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 10).
6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal building will resume in the last quarter of 2021 and expected to be completed in 2023.

ii. Manila International Airport

On August 14, 2019, the ROP, through the DOTr, issued a NOA to SMHC, awarding the Manila International Airport Project. In accordance with the NOA, SMAI was registered by SMHC as the concessionaire.

The Manila International Airport Project shall create a gateway for international and domestic travel, with the necessary ancillary facilities to support the creation of a new airport city outside Metro Manila to decongest the existing road networks and provide an alternative higher capacity airport facility.

A. Concession Agreement

On September 18, 2019, SMAI entered into a Concession Agreement with the ROP, through the DOTr, for the right to finance, design, construct, supply, complete, test, commission and eventually operate and maintain the Manila International Project for a period of 50 years from the issuance of the Certificate of Substantial Completion for the first phase.

The salient features of the Concession Agreement are presented below:

1. The Manila International Airport shall consist of airfield facilities, passenger and cargo terminal buildings, airport support facilities and an airport toll road facility which will connect the Manila International Airport to the North Luzon Expressway and will be implemented in three phases, with increasing capacity for each phase completed.
2. The implementation of the first phase shall be completed within a period of five years from the date of commencement of construction, with the remaining phases subject to the timely submission and approval of the required documentation for each phase.
3. SMAI shall turnover 100 hectares of land to the ROP as government center land area and execute the necessary documents to transfer full ownership in favor of the ROP.
4. SMAI shall be responsible for the acquisition of right-of-way and possession of sufficient title to the facilities of the site of the Manila International Airport and the removal or abatement of all liens, encumbrances and hazardous substances within the Manila International Airport's vicinities as the case may be.
5. SMAI shall provide proper maintenance of the Manila International Airport's facilities and ensure that all airport facilities and airport toll road are in the condition required upon turnover to the ROP at the end of the concession period.
6. All revenues derived from the operations, maintenance and management of the Manila International Airport shall accrue to SMAI, including the lease or sublease of all business or commercial ventures and activities consistent with the Manila International Airport's operations.

B. Legislative Franchise

On December 20, 2020, RA No. 11506 lapsed into law, granting SMAI a franchise to construct, develop, establish, operate and maintain a domestic and international airport in the municipality of Bulakan and to construct, develop, establish, operate and maintain an adjacent Airport City (the Manila International Airport Project). The franchise is for a period of 50 years. RA No. 11506 became effective on January 15, 2021 and enhances the earlier Concession Agreement.

The salient features of RA No. 11506 are as follows:

1. SMAI shall be exempt from any and all direct and indirect taxes of any kind, nature and description, including but not limited to income taxes, value-added taxes, excise taxes, customs duties and tariffs, business taxes, among others during a ten-year construction period beginning from the effectivity of RA No. 11506. After the construction period, SMAI shall be exempt from income and real estate taxes until SMAI has fully recovered the costs incurred in the construction of the Manila International Airport Project.
2. After SMAI has fully recovered the costs, SMAI shall be entitled to generate income from its operations equivalent to an internal rate of return of 12% per annum. Any amount in excess shall be remitted to the national government.
3. SMAI is also required to offer at least 20% of its outstanding capital stock to any securities exchange in the Philippines for public participation within 5 years upon full recovery of costs incurred in the construction of the Manila International Airport Project.

o MRT 7 Concession Agreement

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US\$1,236, adjusted to 2008 prices at US\$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.
2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.
3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.

5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the amortization payment made over the total amortization payment to be made during the concession period. After the end of the concession period but provided that all the amortization payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.
6. The amortization payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.
7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.
8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.
9. Upon the expiration of the concession period and payment in full of the amortization payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.
10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement in 2020.

On April 20, 2016, ULC BVI through SMC, led the ground breaking ceremony for the MRT 7 Project.

Pursuant to Section 19.1 of the Concession Agreement, on September 30, 2016, ULC BVI sent a request letter to the ROP through the DOTr to secure the latter's prior approval in relation to the intention of ULC BVI to assign all its rights and obligations under the Concession Agreement to SMC MRT 7, the designated special purpose company for the MRT 7 Project. The assignment of the rights and obligations from ULC BVI to SMC MRT 7 will be achieved through execution of Accession Agreement. Based on the Concession Agreement, ULC BVI may assign its rights, title, interests or obligations therein, provided that the following conditions are met:

- The assignment will not in any way diminish ULC BVI's principal liability under the Concession Agreement; and
- ULC BVI secures from ROP, through the DOTr, its prior approval, which shall not be unreasonably withheld.

In addition, the letter dated September 30, 2016 from ULC BVI also requested that upon submission by SMC MRT 7 of the lenders' recognition that the Financing Agreements for the MRT 7 Project is for its benefit, the DOTr shall cause the amendment of the Performance Undertaking dated July 23, 2014 by changing the addressee and beneficiary thereof from ULC BVI to SMC MRT 7.

On December 12, 2016, the ROP through the DOTr gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC MRT 7.

Following the DOTr's approval, SMC MRT 7 and ULC BVI carried out the Accession Agreement on January 12, 2017.

- o *Toll Road Concession Agreements*

- i. *SLEX*

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of the initial toll rate starting April 1, 2011.

In 2012, SLTC received a letter from the Department of Finance informing SLTC of the conveyance by PNCC to the ROP of its shares of stock in SLTC, by way of deed of assignment. Moreover, SLTC also received the Declarations of Trust signed by the individual nominees of PNCC, in favor of the ROP, in which each nominee affirmed their holding of single, qualifying share in SLTC in favor of the ROP.

On July 21, 2015, SLTC entered into a MOA with Ayala Corporation (AC), on the inter-operability of the SLEX and Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

The MOA on inter-operability provides the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway on July 24, 2015.

In 2019, SLTC commenced the construction of TR4 and is ongoing as at December 31, 2020.

- ii. *NAIA Expressway*

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through the Department of Public Works and Highways (DPWH), wherein Vertex was granted the right to finance, design, construct, and operate and maintain the NAIA Expressway Project. The NAIA Expressway Project links the three NAIA terminals to the Skyway, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation.

On September 22, 2016, Vertex started commercial operations of NAIA Expressway upon receipt of the Toll Operations Permit from the TRB. The Toll Operations Permit for Phase II A and B was issued on September 9, 2016 and December 19, 2016, respectively.

At the end of the concession period, Vertex shall turnover the NAIA Expressway to the DPWH in the condition required for turnover as described in the Minimum Performance Standards Specifications of the Concession Agreement.

iii. Skyway

On June 10, 1994, PNCC, the franchise holder for the construction, operations and maintenance of the Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (Citra), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering not only the proposed Skyway but also the planned Metro Manila Tollways. The Joint Investment Proposal embodied, among others, that Citra in cooperation with PNCC committed itself to finance, design and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995.

o Skyway Stages 1 and 2

The STOA for SMMS was executed on November 27, 1995 by and among CMMTC, PNCC and the ROP acting through the TRB. Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the operations and maintenance of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the operations and maintenance of the SMMS to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the operations and maintenance responsibilities for the SMMS from PSC to SOMCO.

The SMMS shall be owned by the ROP, without prejudice to the rights and entitlement of CMMTC and SOMCO under the STOA. The legal transfer of ownership of the SMMS to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among CMMTC, SOMCO and PNCC for the operations and maintenance of the SMMS.

The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed significant if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least five percent. The applicable exchange rate shall be the exchange rate between the currencies in effect as at the date of approval of the prevailing preceding toll rate.

- o Skyway Stage 3

The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 18.83 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate for the entire Skyway Stage 3 Project to CCEC and/or CMMSC.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

On December 29, 2020, the Skyway Stage 3 Project was partially opened to the public. It was formally inaugurated and opened to motorists on January 14, 2021, free of toll fee.

- o Skyway Stage 4

On July 14, 2014, the Stage 4 STOA was executed by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator. CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the Toll Operation Certificate by the TRB to CITI and/or MOMCO.

As at December 31, 2020 the Skyway Stage 4 Project is in the inception of its construction stage.

iv. TPLEX

SMCTC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 89.21 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of SMCTC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each segment of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of SMCTC. SMCTC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, SMCTC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 30.31-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14.91-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting February 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 7, 2017, while Segment 8 (Pozorrubio to Rosario), which is the final phase of the TPLEX Project, was completed and became operational on July 15, 2020.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

Stage	Project Description
Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II (Phases I and II)	Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

o *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement. The Bulacan Bulk Water Supply Project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the province of Bulacan.

On January 24, 2019, LCWDC commenced operations upon issuance of the Certificate of Final Acceptance by the MWSS for the completion of all works required under Stage 1 of the Bulacan Bulk Water Supply Project.

On April 25, 2019, the MWSS issued the Certificate of Final Acceptance for Stage 2 of the Bulacan Bulk Water Supply Project.

Upon issuance of the Certificate of Final Acceptance by MWSS for completion of all works for Stage 1, LCWDC has officially commenced its operations and started delivery of potable bulk water to the first seven Water Districts of Bulacan. Thereafter, on 24 April 2020, LCWDC has successfully completed Stages 1 & 2 of the Project and delivered bulk water to a total of 12 Water Districts.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay annual water rights fee to the Provincial Government of Bulacan amounting to P5 for the first five years of operation, subject to adjustment based on the Concession Agreement starting on the sixth contract year onwards.
 2. LCWDC shall pay an annual Concession Fee and Operation and Maintenance Fee to MWSS amounting to the equivalent of 2.5% of the Annual Gross Revenue of LCWDC and P5, respectively.
 3. MWSS and the Water Service Providers (WSPs) of the Province of Bulacan entered into a Memoranda of Understanding where the parties agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Service Project. Pursuant thereto, MWSS, LCWDC, and the individual WSPs for Stages 1 & 2 has entered into individual MOA where the MWSS, through LCWDC, has committed to supply the potable bulk water and the WSPs have agreed to accept the water and/or pay the Bulk Water Charges at the rate of Eight Pesos and Fifty Centavos plus VAT, subject to certain adjustments as provided under the Concession Agreement and the MOA.
 4. LCWDC utilized the National Housing Authority (NHA) site for the water treatment facility. The NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC paid in staggered cash in the aggregate amount of P165.
 5. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.
- Food and Beverage
 - *Toll Agreements*

The significant subsidiaries of SMFB have entered into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the "Parties"). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.

- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses included as part of “Cost of sales” account in the consolidated statements of income amounted to P7,493, P8,959 and P8,889 in 2020, 2019 and 2018, respectively (Note 26).

- Cement

- *Mineral Production Sharing Agreement (MPSA)*

NCC has an existing MPSA granted by the Philippine Government through the Department of Environment and Natural Resources (DENR). Details of the MPSA are as follows:

MPSA No.	Location	Date of Issuance
106-98-1	Labayug, Sison, Pangasinan	March 12, 1998

This MPSA has a term of 25 years from the date of issuance and may be renewed thereafter for another term not exceeding 25 years.

NCC has the following key commitments under its MPSA:

- The Philippine Government share shall be the excise tax on mineral products at the time of removal and at the rate provided for in RA No. 7729 amending Section 151 (a) of the Revised National Internal Revenue Code, as well as other taxes, duties and fees levied by existing laws.

Excise taxes paid to the Philippine Government aggregated to P13 in 2020.

- Allotment of a minimum of 1.5% of the direct drilling and milling costs necessary to implement the activities for community development.

As at December 31, 2020, allotment made amounted to P5.

- Mining

- *MPSA*

PNPI, PPC and PIC

The MPSA provides for the exclusive possession of and the privilege and right to explore, utilize, process and dispose of all minerals, mineral products and by-products that may be derived from the total contract area of 23,877 hectares in Parcels II and III of the Surigao Mineral Reservation (SMR) in the Province of Surigao del Norte and Dinagat Islands.

On May 2, 1997, PIC assigned its rights and obligations under the MPSA to PNPI. As a result of the assignment, PNPI holds exclusive rights to explore, develop, mine, and commercially utilize nickel, cobalt, chrome, iron and other mineral deposits within the contract area for a period of 25 years. On the other hand, PPC holds exclusive rights with respect to the processing of minerals and resources under the MPSA.

As part of the consideration for the assignment of the MPSA, PNPI assigned to PPC the exclusive Mineral Processing Rights (MPR) granted under the MPSA. The assignment of the MPSA by PIC to PNPI and the assignment of the MPR by PNPI to PPC were approved by the DENR on August 7, 1997.

The assignment of the MPSA was subject to the following conditions:

- i PNPI shall enter into an exclusive 25-year ore supply contract with PPC, to provide PPC with its nickel ore requirements;
- ii The MPSA shall be deemed automatically assigned to PPC in the event that PIC shall be in default under the ARDA and the ARDA is terminated in accordance with its terms;
- iii PNPI shall be jointly and severally liable for the payments due to the PMO under the ARDA and all profits earned by PNPI will be used to pay PIC's obligations to PMO under the ARDA as and when necessary; and
- iv All of the outstanding capital stock of PNPI shall be pledged to PMO as security for the obligations of PNPI to PMO as well as the obligations of PIC to PMO under the ARDA.

On August 7, 2007, MPSA No. 072-97-XIII (SMR) was reinstated in favor of PNPI. The term of the MPSA is for a period of 25 years until 2022. The first renewal of the two-year exploration period was granted on February 1, 2000; the second renewal on November 18, 2002; and the third renewal on September 25, 2007.

On August 12, 2009, prior to the expiration of the third renewal of the exploration period, PNPI submitted a Declaration of Mining Project Feasibility (DMPF) covering the 25,000 hectare MPSA contract area.

PNPI filed the fourth request for an additional two-year exploration period on November 25, 2013 with the Mines and Geosciences Bureau of the DENR (DENR-MGB) with the objective of: (a) updating the 2009 DMPF; and (b) fully defining the quality and quantity of limonite and saprolite deposits within the contract area. The request was approved, covering the period of February 25, 2015 to February 24, 2017.

On February 10, 2017, PNPI was granted the fifth renewal of the two-year exploration period by the DENR-MGB covering the period of February 25, 2017 to February 24, 2019 conditioned on the full implementation of the approved Exploration Work Program and Environmental Work Program, as well as the filing of DMPF.

On February 7, 2019, prior to expiration of exploration permit on February 24, 2019, PNPI filed the request for the renewal of the MPSA's exploration period with the MGB. The request is anchored on (1) the need to complete various technical studies; (2) the need to settle the PIC vs PMO case; and (3) PNPI's satisfactory compliance to the terms and conditions of the fifth renewal of the MPSA's exploration period. On September 9, 2020, PNPI has been granted the sixth renewal of exploration period and is coterminus with the remaining terms of the MPSA which is until August 7, 2022.

On September 21, 2015, the Deeds of Partial Assignment and Transfer was executed by PNPI with Prima Lumina Gold Mining Corporation (PLGMC) and V.I.L. Mines (VMI) wherein PNPI assigned all its rights and obligations in the 7035- and 6264-hectare portions of the contract area under its current Mining Rights (MPSA No. 072-97-XIII-SMR). On November 6, 2019, the Department of Environment and Natural Resources approved the Deeds of Assignment and Partial Transfer by PNPI with PLGMC and VMI. The Company's Mineral Production Sharing Agreement, MPSA No. 072-97-XIII-SMR, was redenominated as:

- MPSA-072-97-XIII-SMR-Amended A in the name of PNPI covering 10,577.6157 hectares (Nonoc, Awasan, and Hanigad Islands plus the Sabang Dam area);
- MPSA-072-97-XIII-SMR-Amended B in the name of PLGMC covering 7,035 hectares (North Dinagat area); and
- MPSA-072-97-XIII-SMR-Amended C in the name of VMI covering 6,264 hectares (South Dinagat area).

The approval came with the conditions that:

- The three companies shall submit a location map/sketch plan for each MPSA using NAMRIA topographic map at a scale of 1:50,000; and,
- The three companies shall file the renewal of the Exploration Period under the respective MPSA or submit a Declaration of Mining Project Feasibility (DMPF) Study pursuant to the terms and conditions of the MPSA.

The Mines and Geosciences Bureau further stated that the assigned portions of the MPSA shall be treated as separate MPSAs, subject to regular monitoring of the Mines and Geosciences Bureau Regional Office No. XIII.

VMI

VMI has mining rights under MPSA No. 346-2010-IVA issued by the DENR on June 25, 2010. The MPSA covers a total area of 11,126 hectares located in Quezon and Camarines Norte. The term of the MPSA is for a period of 25 years until 2035. In December 2015, the exploration permit of VMI expired and the exploratory core drilling activities were put on hold. A letter of request for the renewal of exploration permit was sent by VMI to MGB. However, due to the peace and order situation in the contract area, VMI filed with the DENR-MGB a request for suspension of obligations pursuant to the MPSA due to *force majeure*. The request was granted by MGB on August 24, 2017 and will be valid for two years or up to August 23, 2019. On July 16, 2019, VIL wrote to DENR-MGB requesting for the extension of suspension of obligations as peace and order situation within the contract area is still unstable. After foregoing premises considered, the Order dated August 24, 2017 suspending the obligations of V.I.L. Mines, Inc. is hereby extended for a period of two years starting from August 24, 2019 to August 23, 2021. Meanwhile, VMI continues to implement the remaining community development activities for its host communities.

- *Joint Operating Agreement*

On June 21, 2007, PPC and PNPI executed a Deed of Assignment to assign the rights and obligations of the Joint Operating Agreement entered by Philippine Mining Development Corporation (PMDC) and PPC to PNPI. The assignment was approved by PMDC on January 11, 2008.

- *Special Economic Zone*

On October 6, 1999, Presidential Proclamation No. 192 was issued creating and establishing the 106.5 hectare land situated in Nonoc Island, Surigao City as an economic zone to be known as the Philnico Industrial Estate Special Economic Zone. PIC is a PEZA-registered operator/developer of the economic zone as per Certificate of Registration No. EZ 00-001.

Pursuant to its registration with PEZA as an economic zone developer/operator, PIC is entitled to certain incentives in accordance with the provisions of RA No. 7916, otherwise known as “The Special Economic Zone Act of 1995”, as amended.

As at December 31, 2020, Clariden is currently conducting metallurgical tests and additional technical studies to determine the optimal processing option for the nickel deposits.

Lease Commitments

- Group as Lessees under PAS 17

- Finance Leases*

- As at January 1, 2019, assets classified as finance lease under PAS 17 and presented as part of “Property, plant and equipment - net” were reclassified to “Right-of-use assets - net” account in the consolidated statements of financial position (Notes 3, 4, 13 and 14).

- a. IPPA Agreements

- The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group’s IPPA Agreements with PSALM, the Group’s management has made a judgment that the IPPA Agreements are agreements that contains a finance lease. The Group’s management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group’s capitalized asset and related liability of P179,907 and P99,309 as at December 31, 2020 and P185,839 and P127,425 as at December 31, 2019, respectively, (equivalent to the present value of the minimum lease payments using the Group’s incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of “Right-of-use assets - net” and “Lease liabilities” accounts in the consolidated statements of financial position (Notes 4 and 14).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at the inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P3,661, P4,470 and P5,165 in 2020, 2019 and 2018, respectively (Note 30).

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of the 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water and Realty Services Corp. acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P16 (Note 13).

The lease liability is amortized using the discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P3 in 2020 and 2019 (Note 30).

MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position amounted to P103 and P108 as at December 31, 2020 and 2019, respectively (Notes 4 and 14).

c. Equipment

The Group's finance leases cover equipment needed for business operations of MNHPI. The agreements do not allow subleasing.

The carrying amount of the leased asset as at April 26, 2019 was deconsolidated following the increase in the shareholdings of non-controlling interest of MNHPI (Note 5).

Interest expense amounted to P1 and P7 in 2019 and 2018, respectively (Note 30).

Operating Leases

The Group leases a number of office, warehouse, factory facilities and parcels of land under operating leases. The leases typically run for a period of one to 16 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.

As at January 1, 2019, the Group recognized right-of-use assets and lease liabilities for these leases, except for short-term leases and leases of low-value assets (Notes 3 and 14).

Rent expense recognized in the consolidated statement of income amounted to P5,253 in 2018 (Notes 4, 26 and 27).

- Group as Lessor

The Group has entered into operating leases on its investment property portfolio, consisting of surplus office spaces and leased property (Note 15) and certain service stations and other related structures and machinery and equipment, as well as leased property (Note 13). The leases have terms of three to ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

Operating Leases under PFRS 16	2020	2019
Within one year	P856	P1,421
One to two years	656	943
Two to three years	653	668
Three to four years	619	511
Four to five years	573	548
More than five years	9,552	7,809
	P12,909	P11,900

Rent income recognized in the consolidated statements of income amounted to P1,382, P1,346 and P785 in 2020, 2019 and 2018, respectively (Notes 4 and 32).

35. Retirement Plans

SMC and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of SMC and majority of its subsidiaries 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. Majority of the Group's latest actuarial valuation date is December 31, 2020. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of SMC and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of SMC.

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

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2020	2019	2020	2019	2020	2019	2020	2019
Balance at beginning of year	P30,865	P33,464	(P33,277)	(P32,787)	(P1,747)	(P3,321)	(P4,159)	(P2,644)
Benefit asset (obligation) of consolidated/deconsolidated subsidiaries	338	(40)	(554)	143	-	-	(216)	103
Recognized in profit or loss								
Service costs	-	-	(1,832)	(1,169)	-	-	(1,832)	(1,169)
Interest expense	-	-	(1,695)	(2,330)	-	-	(1,695)	(2,330)
Interest income	1,571	2,401	-	-	-	-	1,571	2,401
Interest on the effect of asset ceiling	-	-	-	-	(89)	(247)	(89)	(247)
Settlement loss	-	-	-	(34)	-	-	-	(34)
	1,571	2,401	(3,527)	(3,533)	(89)	(247)	(2,045)	(1,379)
Recognized in other comprehensive income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	-	-	2,532	(818)	-	-	2,532	(818)
Changes in financial assumptions	-	-	(649)	(476)	-	-	(649)	(476)
Changes in demographic assumptions	-	-	49	179	-	-	49	179
Return on plan assets excluding interest income	(2,483)	(4,088)	-	-	-	-	(2,483)	(4,088)
Changes in the effect of asset ceiling	-	-	-	-	194	1,821	194	1,821
	(2,483)	(4,088)	1,932	(1,115)	194	1,821	(357)	(3,382)
Others								
Contributions	2,317	3,025	-	-	-	-	2,317	3,025
Benefits paid	(3,463)	(3,879)	3,660	3,989	-	-	197	110
Transfers from other plans	221	2	(239)	(2)	-	-	(18)	-
Transfers to other plans	(274)	(2)	292	2	-	-	18	-
Other adjustments	(33)	(18)	82	26	-	-	49	8
	(1,232)	(872)	3,795	4,015	-	-	2,563	3,143
Balance at end of year	P29,059	P30,865	(P31,631)	(P33,277)	(P1,642)	(P1,747)	(P4,214)	(P4,159)

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

Retirement costs recognized in the consolidated statements of income by the Group amounted to P2,045, P1,379 and P2,004 in 2020, 2019 and 2018, respectively (Notes 29, 30 and 31).

As at December 31, 2020, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,699 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P160 and P6,753, respectively (Notes 20 and 22).

As at December 31, 2019, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,496 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P154 and P6,501, respectively (Notes 20 and 22).

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

The Group's plan assets consist of the following:

	<u>In Percentages</u>	
	<u>2020</u>	<u>2019</u>
Investments in marketable securities and shares of stock	76.58	75.04
Investments in pooled funds:		
Fixed income portfolio	7.61	8.44
Stock trading portfolio	1.95	2.43
Investments in real estate	1.56	1.48
Others	12.30	12.61

Investments in Marketable Securities

As at December 31, 2020, the plan assets include:

- 50,033,387 common shares and 4,231,050 Subseries "2-E", 8,038,270 Subseries "2-F", 103,730 Subseries "2-G", 264,840 Subseries "2-H", 9,782,770 Subseries "2-I", 3,379,100 Subseries "2-J" and 4,007,900 Subseries "2-K" preferred shares of SMC with fair market value per share of P128.10, P75.40, P77.30, P75.80, P78.00, P76.80, P75.50 and P75.50, respectively;
- 747,008,797 common shares and 460,000 preferred shares of Petron with fair market value per share of P3.99 and P1,114.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 22,868,770 common shares of GSMI with fair market value per share of P49.40;
- 12,487,440 common shares of SMFB with fair market value per share of P67.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- 5,994,811 common shares of the Parent Company with fair market value per share of P140.00.

As at December 31, 2019, the plan assets include:

- 48,979,367 common shares and 2,875,200 Subseries “2-D”, 4,133,190 Subseries “2-E”, 8,038,270 Subseries “2-F”, 103,730 Subseries “2-G”, 264,840 Subseries “2-H” and 9,782,770 Subseries “2-I” preferred shares of SMC with fair market value per share of P164.00, P75.00, P77.00, P75.80, P76.00, P75.05 and P75.20, respectively;
- 744,248,797 common shares and 460,000 preferred shares of Petron with fair market value per share of P3.86 and P1,055.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 22,491,570 common shares of GSMI with fair market value per share of P38.00;
- 8,166,480 common shares of SMFB with fair market value per share of P85.00;
- 250,750 preferred shares of SMFB with fair market value per share of P997.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- 5,975,541 common shares of the Parent Company with fair market value per share of P214.00.

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

The Group’s Retirement Plans recognized a gain (loss) on the investment in marketable securities of the Parent Company, SMC and its subsidiaries amounting to (P1,876), (P1,811) and P97 in 2020, 2019 and 2018, respectively.

Dividend income from the investment in shares of stock of SMC and its subsidiaries amounted to P375, P495 and P515 in 2020, 2019 and 2018, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method, amounting to P9,952 and P9,684 as at December 31, 2020 and 2019, respectively. SMCRP recognized its share in total comprehensive income of BOC amounting to P268 and P277 in 2020 and 2019, respectively.

b. BPI

The Group’s plan assets also include San Miguel Brewery Inc. Retirement Plan’s investment in 8,608,494 preferred shares of stock of BPI (inclusive of nominee shares), accounted for under cost method since cost approximates fair value, amounting to P859 as at December 31, 2020 and 2019.

Investments in Pooled Funds

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

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

Approximately 75% and 80% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2020 and 2019, respectively.

Approximately 66% and 68% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of SMC and its subsidiaries as at December 31, 2020 and 2019, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P634 and P633 as at December 31, 2020 and 2019, respectively.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P1,892 to the Retirement Plans in 2021.

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

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

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

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

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

	In Percentages	
	2020	2019
Discount rate	0.40 - 7.00	3.56 - 7.75
Salary increase rate	2.00 - 8.80	5.00 - 8.00

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

The weighted average duration of defined benefit retirement obligation ranges from 1.0 to 26.0 years and 1.0 to 23.7 years as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2020		2019	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P1,996)	P2,295	(P1,747)	P2,043
Salary increase rate	2,311	(2,028)	2,214	(1,939)

The outstanding balances of the Group's receivable from the retirement plans are as follows:

- a. SMC has advances to and receivables from SMCRP amounting to P7,482 and P7,304 as at December 31, 2020 and 2019, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 33). Portion of the advances are subject to interest of 5.75% in 2020 and 2019 (Note 31).
- b. Petron has advances to PCERP amounting to P1,562 and P1,971 as at December 31, 2020 and 2019, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 33). The advances are subject to interest of 5% in 2020 and 2019 (Note 31).

In 2020 and in 2019, portion of Petron's interest bearing advances to PCERP were converted into contribution to the retirement plan.

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as at December 31, 2020 and 2019 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans in 2020, 2019 and 2018.

36. Cash Dividends

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

2020

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividend per Share</u>
March 12, 2020	March 12, 2020	March 13, 2020	P279.00
May 28, 2020	May 28, 2020	May 29, 2020	139.50
August 6, 2020	August 6, 2020	August 7, 2020	139.50
November 5, 2020	November 5, 2020	November 6, 2020	139.50

2019

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividend per Share</u>
March 14, 2019	March 14, 2019	March 15, 2019	P279.00
May 9, 2019	May 9, 2019	May 10, 2019	279.00
August 8, 2019	August 8, 2019	August 9, 2019	139.50
November 7, 2019	November 7, 2019	November 8, 2019	279.00

On March 11, 2021, the BOD of the Parent Company declared cash dividends at P139.50 per share to preferred shareholders of record as at March 11, 2021 to be paid on March 12, 2021.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	<u>Note</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income (loss) attributable to equity holders of the Parent Company		(P233)	P9,604	P7,000
Dividends on CPS	24	(1,618)	(1,618)	(1,618)
Net income (loss) attributable to common shareholders of the Parent Company (a)		(P1,851)	P7,986	P5,382
Weighted average number of common shares outstanding (in millions) (b)		330	330	330
Basic/diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)*		(P5.60)	P24.18	P16.29

*Earnings per share are computed based on amounts in nearest peso.

As at December 31, 2020, 2019 and 2018, the Parent Company has no dilutive debt or equity instruments.

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2020	2019	2018
Trade and other receivables - net	P8,415	(P10,710)	(P10,217)
Inventories	26,501	(8,948)	(15,598)
Prepaid expenses and other current assets	(5,264)	6,025	(10,879)
Accounts payable and accrued expenses	(20,776)	30,905	(5,670)
Income and other taxes payable and others	(475)	(3,720)	3,020
	P8,401	P13,552	(P39,344)

- b. Acquisition of subsidiaries, net of cash and cash equivalents acquired.

	<i>Note</i>	2019	2018
Cash and cash equivalents		P301	P1,715
Trade and other receivables - net		285	2,679
Inventories		326	2,577
Prepaid expenses and other current assets		154	1,639
Investments and advances - net		-	190
Property, plant and equipment - net	13	1,959	62,323
Right-of-use assets - net	14	179	-
Investment property - net	15	-	90
Other intangible assets - net	17	8	80
Deferred tax assets		12	66
Other noncurrent assets - net		387	3,095
Loans payable		-	(2,344)
Accounts payable and accrued expenses		(899)	(9,951)
Income and other taxes payable		(24)	(234)
Long-term debt - net of debt issue costs		(48)	(31,952)
Deferred tax liabilities		(1)	(116)
Lease liabilities		(193)	(31)
Other noncurrent liabilities		-	(210)
Non-controlling interests		(45)	(198)
Net assets		2,401	29,418
Cash and cash equivalents		(301)	(1,715)
Goodwill in subsidiaries	4, 17	53	70,384
Investments and advances		(745)	(30)
Net cash flows		P1,408	P98,057

c. Changes in liabilities arising from financing activities

	Loans Payable	Long-term Debt	Lease Liabilities	Dividends Payable
Balance as at January 1, 2020	P178,507	P682,661	P149,837	P3,566
Changes from Financing Activities				
Proceeds from borrowings	842,619	160,437	-	-
Payments of borrowings	(871,066)	(58,913)	-	-
Payments of lease liabilities	-	-	(24,825)	-
Dividends and distributions paid	-	-	-	(29,305)
Total Changes from Financing Activities	(28,447)	101,524	(24,825)	(29,305)
The Effect of Changes in Foreign Exchange Rates	(585)	(18,188)	(2,927)	-
Consolidation of a Subsidiary and Other Changes	-	765	102	29,420
Balance as at December 31, 2020	P149,475	P766,762	P122,187	P3,681

	Loans Payable	Long-term Debt	Lease Liabilities	Dividends Payable
Balance as at January 1, 2019, as adjusted	P192,968	P617,545	P174,685	P3,491
Changes from Financing Activities				
Proceeds from borrowings	1,435,706	158,746	-	-
Payments of borrowings	(1,445,924)	(85,968)	-	-
Payments of lease liabilities	-	-	(20,673)	-
Dividends and distributions paid	-	-	-	(28,450)
Total Changes from Financing Activities	(10,218)	72,778	(20,673)	(28,450)
The Effect of Changes in Foreign Exchange Rates	(674)	(9,417)	(2,889)	-
Acquisition of Subsidiaries and Other Changes	(3,569)	1,755	(1,286)	28,525
Balance as at December 31, 2019	P178,507	P682,661	P149,837	P3,566

39. 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:

- Liquidity Risk
- Credit Risk
- Market Risk (Interest Rate Risk, Foreign Currency Risk and Commodity Price 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 FVPL, financial assets at FVOCI, financial assets at amortized cost, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price 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 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 constituted the Audit and Risk Oversight 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 tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight 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. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight 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 and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

December 31, 2020	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P47,116	P67,112	P56,017	P91,422	P36,513	P136,808	P434,988
Interest rate	4.0032% - 12.00%	4.2105% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	3.2837% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,581	1,878	31,250	1,154	1,207	12,603	50,673
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	2,572	3,876	2,321	1,442	1,618	7,646	19,475
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	23,131	27,072	104,333	107,902	3,488	4,148	270,074
Interest rate	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	
	P75,400	P99,938	P193,921	P201,920	P42,826	P161,205	P775,210
December 31, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P24,567	P46,288	P65,491	P53,914	P88,870	P138,315	P417,445
Interest rate	4.9925% - 12.00%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	4.63% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,467	2,638	1,891	32,855	1,117	13,368	54,336
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	1,034	1,719	2,714	1,042	162	12,000	18,671
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	16,394	37,404	26,375	100,241	13,510	5,825	199,749
Interest rate	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	LIBOR/ applicable reference rate + margin	
	P44,462	P88,049	P96,471	P188,052	P103,659	P169,508	P690,201

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,895, P2,184 and P2,001 in 2020, 2019 and 2018, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

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

	December 31, 2020		December 31, 2019	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$5,053	P242,692	US\$3,471	P175,846
Trade and other receivables	671	32,211	790	40,020
Prepaid expenses and other current assets	15	749	11	545
Noncurrent receivables	4	201	20	1,006
	5,743	275,853	4,292	217,417
Liabilities				
Loans payable	291	14,014	215	10,832
Accounts payable and accrued expenses	1,955	93,987	1,839	93,100
Long-term debt (including current maturities)	6,679	320,747	5,018	254,085
Lease liabilities (including current portion)	1,131	54,306	1,368	69,286
Other noncurrent liabilities	479	23,023	474	24,029
	10,535	506,077	8,914	451,332
Net foreign currency-denominated monetary liabilities	(US\$4,792)	(P230,224)	(US\$4,622)	(P233,915)

The Group reported net gains (losses) on foreign exchange amounting to P7,433, P6,984 and (P11,723) in 2020, 2019 and 2018, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

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

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

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

December 31, 2020	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P4,619)	(P3,666)	P4,619	P3,666
Trade and other receivables	(113)	(407)	113	407
Prepaid expenses and other current assets	(5)	(14)	5	14
Noncurrent receivables	-	(4)	-	4
	(4,737)	(4,091)	4,737	4,091
Loans payable	145	248	(145)	(248)
Accounts payable and accrued expenses	1,004	1,481	(1,004)	(1,481)
Long-term debt (including current maturities)	5,902	4,908	(5,902)	(4,908)
Lease liabilities (including current portion)	1,095	804	(1,095)	(804)
Other noncurrent liabilities	455	371	(455)	(371)
	8,601	7,812	(8,601)	(7,812)
	P3,864	P3,721	(P3,864)	(P3,721)

December 31, 2019	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P3,041)	(P2,554)	P3,041	P2,554
Trade and other receivables	(232)	(495)	232	495
Prepaid expenses and other current assets	(8)	(8)	8	8
Noncurrent receivables	(18)	(14)	18	14
	(3,299)	(3,071)	3,299	3,071
Loans payable	125	178	(125)	(178)
Accounts payable and accrued expenses	1,257	1,461	(1,257)	(1,461)
Long-term debt (including current maturities)	4,220	3,752	(4,220)	(3,752)
Lease liabilities (including current portion)	1,345	965	(1,345)	(965)
Other noncurrent liabilities	448	368	(448)	(368)
	7,395	6,724	(7,395)	(6,724)
	P4,096	P3,653	(P4,096)	(P3,653)

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

Commodity Price Risk

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

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

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

December 31, 2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P347,962	P347,962	P347,962	P -	P -	P -
Trade and other receivables - net	120,965	120,965	120,965	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	635	635	596	20	19	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	275	275	275	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,915	5,918	82	46	1	5,789
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	270	112	96	62	-

Forward

December 31, 2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	P25,058	P25,082	P -	P333	P24,237	P512
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	7,980	7,980	3,111	3,577	-	1,292
Financial Liabilities						
Loans payable	149,475	149,779	149,779	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	161,074	161,383	161,383	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,898	3,898	1,731	201	1,966	-
Long-term debt (including current maturities)	766,762	909,824	109,456	129,043	489,632	181,693
Lease liabilities (including current portion)	122,187	145,425	31,994	27,237	49,652	36,542
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	28,291	28,309	-	16,787	10,582	940

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P286,677	P286,677	P286,677	P -	P -	P -
Trade and other receivables - net	132,907	132,907	132,907	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	917	91	150	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	284	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,953	5,962	44	82	46	5,790
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	277	79	71	127	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,739	26,399	-	379	25,532	488
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,514	12,514	6,256	5,127	-	1,131
Financial Liabilities						
Loans payable	178,507	179,252	179,252	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	185,334	185,660	185,660	-	-	-

Forward

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	P3,122	P3,122	P1,678	P248	P1,196	P -
Long-term debt (including current maturities)	682,661	852,558	80,816	120,716	451,819	199,207
Lease liabilities (including current portion)	149,837	171,108	35,131	31,509	68,450	36,018
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	27,639	27,650	-	17,313	9,219	1,118

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables 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 the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, 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 basis.

Investment in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality

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

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

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

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

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

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

	Note	2020	2019
Cash and cash equivalents (excluding cash on hand)	7	P346,178	P283,727
Trade and other receivables - net	8	120,965	132,907
Derivative assets	10, 18	635	1,158
Investment in debt instruments at FVOCI	10, 12	126	163
Investment in debt instruments at amortized cost	10, 12	255	257
Noncurrent receivables and deposits - net	18	25,058	25,739
Restricted cash	10, 18	7,980	12,514
		P501,197	P456,465

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

	2020			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	Financial Assets at Amortized Cost					
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P346,178	P -	P -	P -	P -	P346,178
Trade and other receivables	120,965	-	13,768	-	-	134,733
Derivative assets	-	-	-	604	31	635
Investment in debt instruments at FVOCI	-	-	-	-	126	126
Investment in debt instruments at amortized cost	105	150	-	-	-	255
Noncurrent receivables and deposits	-	25,058	606	-	-	25,664
Restricted cash	3,111	4,869	-	-	-	7,980

2019

	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P283,727	P -	P -	P -	P -	P283,727
Trade and other receivables	132,907	-	12,715	-	-	145,622
Derivative assets	-	-	-	882	276	1,158
Investment in debt instruments at FVOCI	-	-	-	-	163	163
Investment in debt instruments at amortized cost	71	186	-	-	-	257
Noncurrent receivables and deposits	-	25,739	724	-	-	26,463
Restricted cash	6,256	6,258	-	-	-	12,514

The aging of receivables is as follows:

December 31, 2020	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P45,989	P23,486	P9,631	P79,106
Past due:				
1 - 30 days	8,894	3,608	276	12,778
31 - 60 days	2,736	316	60	3,112
61 - 90 days	1,363	335	11	1,709
Over 90 days	15,718	21,230	1,080	38,028
	P74,700	P48,975	P11,058	P134,733

December 31, 2019	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P63,321	P23,884	P10,161	P97,366
Past due:				
1 - 30 days	8,510	1,972	380	10,862
31 - 60 days	2,415	396	14	2,825
61 - 90 days	853	1,327	23	2,203
Over 90 days	11,733	19,630	1,003	32,366
	P86,832	P47,209	P11,581	P145,622

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

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

The Group's cash and cash equivalents, derivative assets, investment in debt instruments at FVOCI, investment in debt instruments at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

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

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

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

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

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

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

40. Financial Assets and Financial Liabilities

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

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P347,962	P347,962	P286,677	P286,677
Trade and other receivables - net	120,965	120,965	132,907	132,907
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	635	635	1,158	1,158
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	275	275	284	284
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,915	5,915	5,953	5,953
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	255	257	257
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,058	25,058	25,739	25,739
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	7,980	7,980	12,514	12,514
Financial Liabilities	149,475	149,475	178,507	178,507
Loans payable				
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	161,074	161,074	185,334	185,334
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,898	3,898	3,122	3,122
Long-term debt (including current maturities)	766,762	843,008	682,661	735,514
Lease liabilities (including current portion)	122,187	122,187	149,837	149,837
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	28,291	28,291	27,639	27,639

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, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, 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. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

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

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 0.9% to 3% and 3.1% to 4.5% as at December 31, 2020 and 2019, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 0.9% and 1.6% to 2.0% as at December 31, 2020 and 2019, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

December 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$90	US\$50	US\$60	US\$200
Average strike rate	P52.41 to P56.15	P52.41 to P55.02	P52.95 to P56.15	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$30	US\$280	US\$330
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	3.6% to 5.8%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

December 31, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$129	US\$186	US\$133	US\$448
Average strike rate	P52.71 to P55.55	P52.59 to P56.15	P52.59 to P56.15	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$40	US\$280	US\$340
Average strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$ -	US\$30	US\$75	US\$105
Interest rate	-	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P85	P -	(P87)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,968	(1,251)	657
Interest rate risk:			
US dollar-denominated borrowings	28	(20)	-

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P200	P -	(P178)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,224	(1,009)	499
Interest rate risk:			
US dollar-denominated borrowings	(7)	5	-

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

	Notional	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
	Amount	Assets	Liabilities						
December 31, 2020	Amount	Assets	Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign currency risk: Call spread swaps	US\$200	P30	P96	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P85)	(P80)	P27	P214	Interest expense and other financing charges and Other income - net
Foreign currency and interest rate risks: Cross currency swap	330	-	2,343	Accounts payable and accrued expenses and Other noncurrent liabilities	(1,968)	24	1,257	200	Interest expense and other financing charges and Other income - net
Interest rate risk: Interest rate collar	90	-	28	Accounts payable and accrued expenses and Other noncurrent liabilities	(28)	(8)	-	9	Interest expense and other financing charges
	Notional	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
December 31, 2019	Amount	Assets	Liabilities	Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
Foreign currency risk: Call spread swaps	US\$448	P231	P356	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P200)	(P435)	P -	P307	Interest expense and other financing charges and Other income (charges) - net
Foreign currency and interest rate risks: Cross currency swap	340	37	1,475	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(1,224)	50	721	65	Interest expense and other financing charges and Other income (charges) - net
Interest rate risk: Interest rate collar	105	7	-	Other noncurrent assets - net and Accounts payable and accrued expenses	7	-	-	-	

No ineffectiveness was recognized in the 2020 and 2019 consolidated statement of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	2020		2019	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P1,004)	P321	(P538)	P342
Changes in fair value:				
Foreign currency risk	(28)	(80)	-	(435)
Foreign currency risk and interest rate risks	(1,603)	24	(1,394)	50
Interest rate risk	(35)	(8)	7	-
Amount reclassified to profit or loss	1,284	423	721	372
Tax effect	115	(110)	200	(8)
Ending balance	(P1,271)	P570	(P1,004)	P321

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Interest Rate Swap

The Group has outstanding interest rate swap with notional amount of US\$300 as at December 31, 2019. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P730 as at December 31, 2019.

As at December 31, 2020, the Group has no outstanding interest rate swap.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$440 and US\$770 as at December 31, 2020 and 2019, respectively, and with various maturities in 2021 and 2020. The negative fair value of these currency forwards amounted to P58 and P175 as at December 31, 2020 and 2019, respectively.

Currency Options

The Group has outstanding currency options with aggregate notional amount of US\$925 and US\$1,278 as at December 31, 2020 and 2019, respectively, and with various maturities in 2021 and 2020. The negative fair value of these currency options amounted to P523 and P53 as at December 31, 2020 and 2019, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its fuel oil, coal and aluminum requirements, with various maturities in 2021 and 2020. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index.

The notional quantity of fuel oil were 32.8 million barrels and 12.5 million barrels as at December 31, 2020 and 2019, respectively. The net positive (negative) fair value of these swaps amounted to (P724) and P331 as at December 31, 2020 and 2019, respectively.

The notional quantity of coal were 233,000 metric tons, with negative fair value of P3 as at December 31, 2019.

The Group has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

As at December 31, 2020, the Group has no outstanding commodity swaps on the purchase of coal and aluminum.

Commodity Options

As at December 31, 2020 and 2019, the Group has no outstanding three-way options entered as hedge of forecasted purchases of crude oil.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$173 and US\$188 as at December 31, 2020 and 2019, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The positive fair value of these embedded currency forwards amounted to P479 and P220 as at December 31, 2020 and 2019, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P5,007), (P3,308) and P805 in 2020, 2019 and 2018, respectively (Note 32).

Fair Value Changes on Derivatives

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

	2020	2019
Balance at beginning of year	(P1,964)	(P950)
Net change in fair value of derivatives:		
Designated as accounting hedge	(1,730)	(1,807)
Not designated as accounting hedge	(4,841)	(3,054)
Acquisition of a subsidiary	260	-
	(8,275)	(5,811)
Less fair value of settled instruments	(5,012)	(3,847)
Balance at end of year	(P3,263)	(P1,964)

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

The table below analyzes financial instruments carried at fair value by valuation method:

	December 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P635	P635	P -	P1,158	P1,158
Financial assets at FVPL	-	275	275	-	284	284
Financial assets at FVOCI	427	5,488	5,915	443	5,510	5,953
Financial Liabilities						
Derivative liabilities	-	3,898	3,898	-	3,122	3,122

The Group has no financial instruments valued based on Level 3 as at December 31, 2020 and 2019. In 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

41. Events after the Reporting Date

SMC

a. Investment in GSMI

On December 1, 2020, the BOD of GSMI approved the redemption of the 32,786,885 outstanding preferred shares held by SMC equivalent to 10.27% equity interest in GSMI. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. On January 4, 2021, GSMI paid the redemption price of P1,000 or P30.50 per share and all accumulated unpaid cash dividends. The transaction reduced the effective ownership of SMC from 70.62% to 67.26%.

b. Investment in Petrogen

On December 3, 2020, the BOD and stockholders of Petrogen resolved and approved to increase its authorized capital stock from P750 divided into 750,000 common shares to P2,250 divided into 2,250,000 common shares, both with a par value of P1,000.00 per common share. On the same date, the respective BOD of Petrogen and SMC approved the subscription of SMC to 1,494,973 common shares to be issued out of the increase in authorized capital stock of Petrogen for a total subscription price of P3,000 or P2,006.73 per share.

The Subscription Agreement was executed on January 5, 2021.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on January 27, 2021 and was approved on February 4, 2021.

As a result, Petrogen became 74.94% directly owned by SMC, in addition to the indirect equity interest of 17.11% through Petron or a total of 92.05% equity interest, and was deconsolidated from Petron effective February 4, 2021.

c. *Redemption of Subseries "2-G" Preferred Shares*

On March 11, 2021, the BOD of SMC approved the redemption of all the outstanding Subseries "2-G" Preferred Shares totaling 66,666,600 shares on March 30, 2021. The redemption price shall be the issue price of P75.00 per share, plus any accumulated unpaid cash dividends.

The shares redeemed shall not be considered retired and may be re-issued by SMC at a price to be determined by the BOD. Upon redemption, the shares shall remain listed and trading is merely suspended until re-issued by SMC and upon the approval of the application for lifting of trading suspension by SMC and in accordance with the listing rules of the PSE.

Energy

Redemption of USCS by SMC Global

On February 26, 2021 (the Step-Up Date), SMC Global completed the redemption of its US\$300 USCS issued on August 26, 2015 (the "Second Securities") pursuant to the terms and conditions of the Second Securities. The redemption was made after the issuance of a notice to the holders of the Second Securities dated January 25, 2021. The redemption price of the Second Securities that was paid, includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The Second Securities were redeemed using in part the proceeds of the US\$350 SPCS issued on December 15, 2020 (Note 5).

42. Registration with the Board of Investments (BOI) and Others

a. SMC Global

- o In 2013, SMCP and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987 (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or one month from the date of such commissioning or testing, whichever comes earlier as certified by National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCP to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCP's request on the further extension of the ITH reckoning date from July 2016 to September 2017 was likewise approved by the BOI on December 5, 2018. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LETI (formerly LPPC) was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LETI as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LETI is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LETI's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LETI to SCPC. On July 13, 2018, BOI granted the request of SCPC to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 and Unit 4 commenced on March 26, 2018.

On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCP, SCPC and LETI, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCP and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO No. 70), also entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SCPC for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- SMEC, SPDC and SPPC are registered with the BOI as administrator of their respective power plants, on a pioneer status with non-pioneer incentives for SMEC and SPDC and on a non-pioneer status for SPPC, and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.
- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-pioneer Status.

- On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 600 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for three years from June 2017 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On May 27, 2014, the BOI approved MPPCL's request to move the start of its commercial operation and the reckoning date of the ITH entitlement from June 2017 to December 2018. On June 17, 2015, the BOI subsequently granted MPPCL's requests to downgrade the registered capacity from 600 MW to 300 MW.

On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10MW BESS Project on a pioneer status. The BESS Facility provides 10MW of interconnected capacity and enhances the reliability of the Luzon grid using the *Avancion* energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for six years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL's BOI registration. The ITH period for the 10 MW BESS of MPPCL commenced on December 1, 2018. On October 1, 2020, MPPCL likewise received the BOI approval on the additional 20MW BESS Phase 2 Project.

- On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20MW Kabankalan *Avancion* Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for six years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). On November 27, 2019, SMCGP Philippines Energy filed a request with the BOI to move the reckoning date of the ITH entitlement from July 2019 to July 2021. The request has been approved by BOI on July 10, 2020. The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy's BOI registration.
- On November 29, 2019, the BOI has approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. The BOI has also approved UPSI's subsequent applications covering additional sites. Each registered site was granted with certain incentives including ITH, among others.
- On February 23, 2021, EERI was registered with the BOI under EO No. 226 as new operator of 2 x 850 MW Batangas Combined Cycle Power Plant (Phase I and Phase II) on a non-pioneer status. As a registered entity, EERI is entitled to certain incentives that include, among others, an ITH for four years from April 2023 for Phase 1 and from October 2026 for Phase 2 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the specific terms and conditions of EERI's BOI registrations.

Registration with the Authority of the Freeport Area of Bataan (AFAB)

On April 24, 2019, MPGC was registered with the AFAB, subject to annual renewal, as engaged in business of producing and generating electricity, and processing fuels alternative for power generation, among others, at the Freeport Area of Bataan (FAB). As a FAB enterprise, MPGC will operate a 4 x 150 MW power plant located in Mariveles, Bataan. FAB granted MPGC certain incentives that include, among others, an ITH for four years for original project effective on the committed date or actual date of start of commercial operations, whichever is earlier. On January 4, 2021, MPGC has been granted a renewed certificate of registration with AFAB valid until December 31, 2021.

License Granted by the ERC

On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA, which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMFB

SMFI

SMFI is registered with the BOI and AFAB for certain feedmill, poultry, meats and ready-to-eat meals projects. In accordance with the provisions of EO No. 226 and the Republic Act No. 9728, also known as "The Freeport Area of Bataan Act of 2009", the projects are entitled, among others, to fiscal incentives described as follows:

- o *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. Application for the second year extension of ITH was no longer pursued by SMFI.

Notwithstanding the expiration of ITH benefit, SMFI is still required to continue the submission of annual reports to the BOI for a period of five years from the last year of ITH availment pursuant to BOI Circular No. 2014-01. SMFI's last availment of ITH for this project was in 2016.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash)*. The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years. The ITH period of the project commenced on July 1, 2018.
- *New Producer of Animal and Aqua Feeds*. The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years.

On May 24, 2019, BOI approved SMFI's request to move Davao Feedmill Project's start of commercial operations and ITH reckoning date to April 2019. The ITH period of the project commenced on April 1, 2019.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash)*. The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years.

On May 24, 2019, BOI approved SMFI's request to move Cebu Feedmill Project's start of commercial operations and ITH reckoning date to December 2019.

- SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the AFAB as a *Manufacturer of Feeds for Poultry, Livestock and Marine Species*. AFAB Certificate of Registration is valid for a period of one year from issuance and renewable annually subject to qualifications as determined by AFAB.

The Bataan Feedmill Project was registered with AFAB on January 6, 2017 under Registration No. 2017-057. Thereafter, the project's AFAB registration has been renewed accordingly as follows:

Registration Renewal Date	Certificate of Registration No.	Annual Period Covered
March 6, 2018	2018-096	2018
February 14, 2019	2019-079	2019
December 10, 2019	2020-047	2020
December 29, 2020	2021-081	2021

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH period of the project commenced on May 1, 2018.

- o SMFI has the following poultry projects registered with the BOI under E.O. No. 226.
 - a. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035.
 - b. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082.

Due to certain developments which were significantly different from the original project plans, SMFI submitted on September 19, 2018 a letter requesting cancellation of the registrations. On October 10, 2018, the BOI approved SMFI's request to cancel the registrations of the above-mentioned poultry projects.

- o *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Food Service project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- o *New Domestic Producer of Animal Feeds (in Pellet, Crumble and Mash).* The Phividec, Tagoloan, Misamis Oriental feedmill project (CDO Feedmill Project) was registered on a non-pioneer status on May 27, 2020 under Registration No. 2020-075. The CDO Feedmill Project is entitled to ITH for four years from June 2020 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years. ITH period of the project commenced on June 1, 2020.

PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in EO No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH period of the project commenced on December 1, 2017.

SMMI

SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in EO No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On October 25, 2017, the BOI approved SMMI's request to adjust the ITH reckoning date to December 2018 or actual start of commercial operations, whichever is earlier.

On July 25, 2019, the BOI approved SMMI's subsequent request to further adjust the ITH reckoning date to July 2019 or actual start of commercial operations, whichever is earlier. The ITH period of the project commenced on December 1, 2019.

On August 7, 2020, by virtue of Resolution No. 15-19, Series of 2020, the BOI approved SMMI's request for amendment of ITH Base Figure from peso sales value of 9,582,065,157 to sales volume of 388,447 metric tons.

c. Petron

Refinery Master Plan 2 (RMP-2) Project

On June 3, 2011, the BOI approved Petron's application under the Downstream Oil Industry Deregulation Act (RA No. 8479) as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- i. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- ii. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- iii. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- iv. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- v. Exemption from real property tax on production equipment or machinery.
- vi. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016.

Certificate of entitlement has been timely obtained by Petron to support its ITH credits in 2018. On August 19, 2019, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2018 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Petron did not avail of the ITH in 2020 and 2019. The RMP-2 entitlement period ended in June 2020.

Bataan Refinery

In December 2020, Bataan Refinery was granted approval as a registered enterprise by the AFAB. FAB-registered enterprises are entitled to avail of fiscal incentives under Special Economic Zone Act of 1995 or Omnibus Investment Code of 1987.

d. Packaging

SMYPC

On December 7, 2018, the BOI issued the certificate of registration to SMYPC's Plastic Caps Plant in Laguna as an expanding producer of injection plastic caps on a non-pioneer status under EO No. 226. The registration entitles SMYPC to certain tax and other incentives including but not limited to a three-year ITH starting June 1, 2019 when it started its commercial operations and will expire on May 31, 2022.

On June 19, 2019, the BOI issued the certificate of registration to SMYPC's Plastics Plant in Cebu as a new producer of plastic products such as but not limited to crates and poultry flooring on a non-pioneer status. The registration entitles SMYPC to a four-year ITH starting July 1, 2019 when it started its commercial operations and will expire on June 30, 2023.

On June 26, 2019, the BOI issued the certificate of registration to SMYPC's Plastics Plant in Manila as a modernization project of plastic pallets production on a non-pioneer status. The registration entitles SMYPC to a three-year ITH starting July 1, 2019 when it started its commercial operations and will expire on June 30, 2022.

In addition to the ITH, SMYPC is entitled to the following benefits:

- i. Importation of capital equipment, spare parts and accessories at zero duty from the date of effectivity of EO No. 85 and its Implementing Rules and Regulations for a period of three years from the effectivity of the EO or on July 25, 2019 and until July 24, 2022.
- ii. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with Custom Bonded Manufacturing Warehouse (CBMW) exporting at least 70% of production.
- iii. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.
- iv. Additional deduction for labor expense for a period of five years from registration an amount equivalent to 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board. This may be availed of for the first five years from the date of registration but not simultaneously with ITH.
- v. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.

- vi. Employment of foreign nationals.
- vii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.
- viii. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from the date of registration.
- ix. Access to CBMW subject to the Customs rules and regulations.

As a result of the merger, the BOI certificate of registration for SMYAC's Glass Expansion Project under EO No. 226 was transferred to SMYPC. The registration entitles SMYPC to certain tax and other incentives including but not limited to ITH incentive starting March 1, 2019 and will expire on February 28, 2022.

SYFMC

On December 3, 2019, the BOI issued the certificate of registration to SYFMC's project as a new producer of molds for glass on a pioneer status under EO No. 226. The registration entitles SYFMC to certain tax and other incentives.

The ITH incentive is for a period of six years starting May 1, 2020 when it started its commercial operations. The income qualified for ITH shall be limited to the income directly attributable to the eligible revenue granted from the registered project.

e. SMCSLC

SMCSLC

SMCSLC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

- i. *ITH*. Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga). The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentive shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Additional Deduction for Labor Expense*. For the first five years from registration, SMCSLC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, SMCSLC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

ITH incentives availed amounted to Php 3,366 in 2019. The ITH incentives expired on February 19, 2019.

SLHBTC

In 2015, SLHBTC registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations, whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier, but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

- ii. *Additional Deduction from Taxable Income.* SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.
- iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment.* Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:
- o they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
 - o the equipment is reasonably needed and will be exclusively used in the registered activity; and
 - o prior BOI approval is obtained for the importation as endorsed by the DOE.
- iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

- v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.
- vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:
 - o at least 70% of production is imported;
 - o such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
 - o all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.
- vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.
- viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.
- ix. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operation and/or date of registration.

Molave Tanker Corporation (MTC)

MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

- i. *ITH*
 - o *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Apitong, 2,993GT).* The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT).* The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional Deduction for Labor Expense.* For the first five years from registration, MTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

Balyena Tanker Corporation (BTC)

BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

- i. *ITH*
 - o *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT).* The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT).* The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT).* The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
 - *New Domestic Shipping Operator (Cargo Vessel - BTC Soya, 2,426 GT)*. The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from July 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
 - *New Domestic Shipping Operator (Cargo Vessel - BTC Cassava, 2,426 GT)*. The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from July 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
 - iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
 - iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.
 - v. *Additional deduction for labor expense*. For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
 - vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies*.
 - vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration*.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

Narra Tanker Corporation (NTC)

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

- i. *ITH*
 - o *New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT)*. The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Haribon, 2,467 GT)*. The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Falcon, 2,467 GT)*. The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Heron, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
 - o *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Flamingo, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

- v. *Additional deduction for labor expense.* For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

f. SMNCI

On January 15, 2018, SMNCI was registered with the BOI as a new producer of cement on a non-pioneer status. SMNCI's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

- i. ITH for four years from January 2023 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 22 and its Implementing Rules and Regulation.
- iii. Additional deduction from taxable income of 50% of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the requirements as stated in the BOI Certificate.
- iv. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.
- v. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.
- vi. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration.
- vii. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.
- viii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

43. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

▪ SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock, and (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied on June 10, 2019.

On July 4, 2019, an appeal memorandum was filed by the Petitioner with the SEC *En Banc*. SMC, SMFB and GSMI filed their respective comments on the appeal.

On September 14, 2020, SMC received a favorable decision from the SEC *En Banc* denying the appeal memorandum filed by the Petitioner and affirming the decision of the SEC Special Hearing Panel dated February 19, 2019.

▪ Treasury Shares of SMC

A portion of the total treasury shares of SMC came from 25,450,000 common shares with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by SMC with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the common shares of SMC under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring SMC to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

On October 10, 2000, SMC filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than SMC, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote SMC to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. SMC referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios and applying different rates of return to the original amount paid by SMC. The financial advisor stated that if SMC is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring SMC to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which SMC is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that SMC has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that SMC should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of SMC shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of SMC shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of SMC unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of SMC and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed SMC's intervention, the Sandiganbayan's disposition of the so-called CIIF block of SMC shares in favor of the Government cannot bind SMC, and that SMC remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized SMC's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that SMC and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation.

The Executive Committee of SMC approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of SMC approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in SMC in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of SMC, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB.

On October 5, 2012, SMC redeemed all Series "1" preferred shares including those Series "1" preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series "1" preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As at October 5, 2012, CIIF Holding Companies are no longer stockholders of SMC.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct SMC to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, SMC filed a Comment on the Urgent Motion in compliance with the Supreme Court's Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by SMC on February 22, 2012, directing SMC to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of SMC.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” which are Part and Parcel of the 33,133,266 CIIF Block of SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required SMC to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated November 20, 2012,” dated December 17, 2012, alleging that: (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) SMC is likewise not a party in those cases, and if SMC is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished SMC; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that “no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court’s directive”.

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required SMC to file its comment on the: (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed SMC, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the: (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted SMC’s motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

SMC, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) “Comment of San Miguel Corporation on the ‘Manifestation’ of Petitioners COCOFED, et al., Dated October 4, 2012” on November 6, 2013; and (b) “Comment of San Miguel Corporation on the ‘Manifestation and Omnibus Motion’ Dated October 12, 2012 of the Respondent Republic” on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, SMC has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the "Manifestation and Omnibus Motion" filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 CIIF Block of SMC Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the ROP to file the appropriate action or proceeding to determine the legal right of SMC to the 25,450,000 treasury shares of SMC. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

- Deficiency Excise Tax/Excess Excise Tax Payments

Filed by SMC

In 2004, SMC was assessed of excise taxes by the BIR on "San Mig Light" which at that time was one of its products. These assessments were contested by SMC but nonetheless made the corresponding payments. Consequently, SMC filed three (3) claims for refund for overpayments of excise taxes with the BIR which were then elevated to the Court of Tax Appeals (CTA) by way of petition for review. The details of the such claims for refunds are as follows:

- (a) first claim for refund of overpayments for the period from February 2, 2004 to November 30, 2005 was filed on January 31, 2005 with the CTA First Division docketed as CTA Case No. 7405;
- (b) second claim for refund of overpayments for the period of December 31, 2005 to July 31, 2007 was filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7708; and
- (c) third claim for refund of overpayments for the period of August 1, 2007 to September 30, 2007 filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7953.

In the meantime, effective October 1, 2007, SMC spun off its domestic beer business into a new company, 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.

On the First Claim for Refund. On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against SMC, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. After unsuccessfully having the decision reconsidered, the BIR represented by the Office of the Solicitor General elevated the cases to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

On the Second Claim for Refund. On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting SMC's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of SMC in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

On January 25, 2017, the Supreme Court, consolidating the First and Second Claims for refund, decided in the consolidated cases of G.R. 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 of December 1, 2005 to July 31, 2007, and P782 for the period of February 2, 2004 to November 30, 2005. The motions for reconsideration filed by the OSG were denied and the decision became final. 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.

On September 8, 2020, the BIR issued TCC Nos. 121-20-00012 and 121-20-00013 amounting to P782 and P926, respectively, in favor of SMC. As at December 31, 2020, the TCC was not yet applied in any of SMC's tax obligations.

On the Third Claim for Refund. CTA Case No. 7953 was consolidated with CTA Case No. 7973 filed by SMB, which consolidated cases were subsequently decided in favor of SMC and SMB by the CTA Third Division, ordering the BIR to refund to them the joint amount of P934.

On August 10, 2020, the BIR issued TCC No. 121-20-00010 amounting to P105 in favor of SMC. P44 out of P105 was partially applied to SMC's 2020 tax obligations.

Filed by SMB

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

- (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);
- (b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);
- (c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);
- (d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);
- (e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);
- (f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 19, 2014);
- (g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 22, 2015);
- (h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 28, 2016);
- (i) ninth claim for refund of overpayments for the period from 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 from 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 from January 1, 2018 to December 31, 2018 - First Division docketed as CTA Case No. 10223 (December 6, 2019); and
- (l) twelfth claim for refund of overpayments for the period of January 1, 2019 to December 31, 2019 – Third Division docketed as CTA Case No. 10421 (December 16, 2020).

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P829 and the amount of P105 to SMC. The BIR appealed to the CTA *En Banc* which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. The Writ of Execution was issued on March 18, 2019 by the CTA Special Second Division in the amount of P829. SMB filed an application for the issuance of a TCC with the BIR. The Integrated Tax System (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 (Note 32). P809 out of P829 was partially applied to SMB's 2020 tax obligations.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division, ordering the BIR to refund the amount of P731. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, 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. 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 (Note 32).

CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the Court of Tax Appeals, SMB filed a motion for execution with 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 (Note 32) 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 G.R. 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 (Note 32) has been fully utilized against SMB's tax obligations in 2020.

In CTA Case No. 8748, the CTA Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761, which was appealed by the BIR to the CTA *En Banc*. On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. On March 8, 2019, the CTA *En Banc* denied the Commissioner's Motion for Reconsideration on its Decision dated October 11, 2018. Subsequently, on June 6, 2019, the Commissioner appealed to the Supreme Court by way of a Petition for Review the Decision dated October 11, 2018 and Resolution dated March 8, 2019 of the CTA *En Banc*. In the Supreme Court, the case was docketed as G.R. No. 245878. The disposition of the case was delayed by the decision of the Office of the Solicitor General not to file the Petition for Review in the Supreme Court and by the withdrawal and substitution of BIR lawyers. The Petition which was actually prepared and filed by the BIR Litigation Division. Finally, on January 27, 2021, the Supreme Court issued a Resolution denying the Commissioner's Petition for Review. When this Resolution becomes final and executory, SMB will file a Motion for Execution in CTA Case No 8748.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). 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. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the Commissioner filed a motion for reconsideration on the aforesaid decision which was denied. Subsequently, on March 25, 2019, the BIR Commissioner filed with the Supreme Court a Motion for Extension of Time to file a Petition for Review on the Decision dated September 19, 2018 and Resolution dated January 24, 2019 of the CTA *En Banc*. On May 16, 2019, the Commissioner filed a Manifestation with the Supreme Court that he opted not to file a Petition for Review on Certiorari but will pursue the case in the CTA Third Division to which it was ordered remanded by the CTA *En Banc*. On the basis of the Commissioner's aforesaid Manifestation, the Supreme Court, in a Resolution dated

January 9, 2020, declared the case before it closed and terminated. SMB will now pursue CTA Case No. 8955 in the CTA Third Division to which it was remanded by the CTA *En Banc*. On February 15, 2021, after the withdrawal of the appeal of the Commissioner the Supreme Court became final and executory, the CTA *En Banc* issued a Resolution formally remanding the case to the CTA Third Division for the latter's resolution on the merits. On March 1, 2021, SMB filed a Motion with the CTA Third Division for leave to file, and for admission of, a Supplemental Formal Offer of Evidence with respect to additional exhibits. The said Motion is presently under consideration by the Court.

In CTA Case No. 9223, the CTA Third Division, on April 11, 2019, rendered its Decision partially granting SMB's Claim for Refund to the extent of P56 but disallowing and denying its Claim for Refund of excess excise taxes paid on "San Mig Light" (SML) in kegs in the amount of P5. On May 10, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P5, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P5 in addition to, and apart from, the amount of P56 which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA Third Division. On June 23, 2020, the CTA Third Division issued a Resolution denying SMB's Motion for Partial New Trial. Thereafter, SMB elevated the Decision of the CTA Third Division to the CTA *En Banc* by way of a Petition for Review, which was docketed as CTA EB No. 2320. The Commissioner also elevated the same Decision of the CTA Third Division to the CTA *En Banc* by way of a Petition for Review, which was docketed as CTA EB No. 2327, and which was consolidated with CTA EB No. 2320. On January 26, 2021, the CTA *En Banc* issued a Resolution stating that the Petitions for Review of the parties were deemed submitted for decision. The Court has not yet rendered its Decision.

In CTA Case No. 9513, the CTA Second Division rendered its Decision on June 13, 2019, partially granting SMB's Claim for Refund to the extent of P44 but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P4. On June 26, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P4, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P4 in addition to, and apart from, the amount of P44 which was ordered refunded to it. On September 17, 2019, the CTA Second Division issued a Resolution denying SMB's Motion for Partial New Trial. On October 15, 2019, SMB elevated the Decision dated June 13, 2019 and Resolution dated September 17, 2019 of the CTA Second Division to the CTA *En Banc* by way of a Petition for Review. In the meantime, on October 24, 2019, the Commissioner also filed with the CTA *En Banc* a Petition for Review on the same Decision of the CTA Second Division, which was consolidated with SMB's Petition for Review. On February 4, 2021, the CTA *En Banc* rendered a Decision denying the Petitions for Review of SMB and the Commissioner. Both parties filed Motions for Partial Reconsideration, which are presently pending consideration by the Court.

On October 14, 2019, in CTA Case No. 9743, the CTA First Division rendered its Decision partially granting SMB's Claim for Refund to the extent of P28 but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P3. On October 29, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P3, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P3 in addition to, and apart from, the amount of P28 which was ordered refunded to it. On June 10, 2020, the CTA First Division issued a Resolution denying SMB's Motion for Partial New Trial as well as the Motion for Reconsideration filed by the CIR on the same Decision. Subsequently, SMB filed a Petition for Review with the CTA *En Banc* on the Decision of the CTA First Division, which was docketed as CTA EB No. 2284. The Commissioner also filed a Petition for Review with the CTA *En Banc* on the same Decision, which was docketed as CTA EB No. 2283. The two Petitions for Review were later consolidated. On February 23, 2021, the CTA *En Banc* issued a Resolution stating that the Petitions for Review were deemed submitted for decision. The Court has not yet issued its Decision.

In CTA Case No. 10000, on March 15, 2019, the BIR Commissioner filed his Answer to the Petition for Review. The case was scheduled for pre-trial conference on June 25, 2019, and thereafter, the presentation of SMB's witnesses was held on August 15, 2019 and September 17, 2019. On September 25, 2019, SMB submitted its Formal Offer of Evidence. Subsequently, after the parties filed their Memoranda, the case was deemed submitted for decision by the CTA Third Division. The Court has not yet rendered its Decision.

On February 20, 2020, the BIR Commissioner filed his Answer to the Petition for Review in CTA Case No. 10223. Thereafter, the case was set for Pre-Trial on March 26, 2020. At the hearing held on February 3, 2021, the Court commissioned an Independent Certified Public Accountant (ICPA) to examine, verify, and audit the documents submitted by SMB in support of its Claim for Refund. The ICPA was required to submit his Report on or before April 30, 2021. SMB presented its witness at the same hearing held on February 3. The next hearing was scheduled on June 2, 2021 for the testimony of the ICPA on his Report.

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

Filed by GSMI

GSMI filed two claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review as follows:

- (a) CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amounts of P582 in Case No. 8953, and P133 in Case No. 8954, or in the total amount of P715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

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

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

The CTA rendered an Amended Decision dated February 1, 2021 wherein the Third Division of the Court of Tax Appeals partially granted our Motion for Reconsideration and ruled that GSMI is entitled to a refund of its erroneously and excessively paid excise taxes in the amount of P320 out of the original claim of P715.

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

- (b) CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

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

In a decision dated February 6, 2020, the CTA denied the GSMI's Claim for Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said Decision. However, the Motion for Reconsideration was denied by the CTA on June 9, 2020. On August 28, 2020, GSMI elevated the case to the CTA *En Banc* by way of a Petition for Review. On January 5, 2021, the CTA *En Banc* issued a Resolution giving due course to our Petition for Review and stating that the case is now deemed submitted for Decision.

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

- Deficiency Tax Liabilities

IBI

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 (FDDA) 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 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 Certiorari on September 7, 2018 docketed as G.R. Nos. 241147-48 and was raffled to the First Division of the Supreme Court. On the other hand, the BIR's Petition was docketed as G.R. Nos. 240651 and 240665 and was raffled to the Second Division of the Supreme Court.

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

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

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

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

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

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 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 amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA *En Banc* has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR. As at December 31, 2018, the Group recognized a provision amounting to P52.

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

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

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

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

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

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 (DST) 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 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, DST and compromise penalty are cancelled and set aside. However, the assessment for deficiency expanded withholding tax is 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.

SMFI

- i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a FDDA was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015, which the CIR denied in a letter that SMFI received on April 21, 2015.

SMFI then opted to file a Petition for Review with the CTA First Division on May 15, 2015, docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand/Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand/Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division, to which SMFI responded through an Opposition to the Motion filed on March 16, 2018.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR then filed the Petition for Review before the CTA *En Banc* on July 13, 2018, to which SMFI responded through a written Comment filed on August 17, 2018. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

CTA *En Banc* rendered its decision on August 6, 2019, denying the Petition for Review filed by the BIR. The Decision affirmed the withdrawal and cancellation of the assessment issued against SMFI covering the period January 1, 2010 to August 31, 2010.

The BIR filed a Motion for Reconsideration of the Decision of the CTA *En Banc* on September 6, 2019. SMFI's Comment on the Motion for Reconsideration of the BIR was filed on October 18, 2019.

In a Resolution dated January 7, 2020, the CTA *En Banc* has denied the Motion for Reconsideration filed by the BIR. On March 2, 2020, the BIR then filed a Petition for Review on Certiorari with the Supreme Court.

On October 5, 2020, pending resolution of the Petition with the Supreme Court, the BIR issued a Warrant of Distraint and/or Levy (WDL) against SMFI (as the surviving corporation). SMFI requested BIR for the lifting and cancellation of the WDL. SMFI also filed an Urgent Omnibus Motion with the CTA to suspend collection of taxes and declare the WDL null and void.

On December 4, 2020, to put an end to a protracted, expensive and mutually prejudicial litigation, SMFI and the BIR entered into an amicable settlement through execution of a Judicial Compromise Agreement (JCA).

On January 4, 2021, SMFI filed a Motion to Approve the JCA with the Supreme Court in lieu of filing a Comment to the Petition on Certiorari. The BIR also manifested with the CTA *En Banc* that a similar motion will be filed with the Supreme Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA. First Division and docketed as CTA Case No. 9241. On September 2, 2016, the Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

On September 28, 2018, the case was transferred to the Third Division of the CTA pursuant to Administrative Circular No. 02-2018.

The CTA Third Division rendered its decision on October 2, 2019, granting SMFI's Petition for Review and cancelling the deficiency income tax and VAT assessment issued by the BIR. The BIR then filed a Motion for Reconsideration of the Decision of the CTA Third Division on November 4, 2019, to which SMFI filed a written Comment on November 29, 2019.

In a Resolution dated March 2, 2020, the CTA Third Division has denied Motion for Reconsideration filed by the BIR.

On October 6, 2020, the BIR issued a WDL against SMFI. SMFI requested BIR for the lifting and cancellation of the WDL.

On October 12, 2020, The CTA Third Division issued a resolution declaring the finality of the October 2, 2019 Decision on account of BIR's failure to appeal the Decision to the Supreme Court. The BIR, on October 29, 2020 filed a Petition from Judgment with the CTA Third Division.

On December 4, 2020, to put an end to a protracted, expensive and mutually prejudicial litigation, SMFI and the BIR entered into an amicable settlement through execution of a JCA.

The CTA Third Division ordered the parties to file a joint motion for the approval of the JCA on January 4, 2021.

iii. SMFI vs. Office of the City Treasurer, City of Davao

SMFI protested the assessment of the City Treasurer of Davao City imposing permit fee to slaughter against its dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District both located in Davao City.

The following Petitions for Review were filed with the CTA Second Division to appeal the joint decision of the Regional Trial Court (RTC) of Davao City dismissing SMFI's appeal from the denial and inaction of the Office of the City Treasurer of Davao City on the protest against the assessment of permit fee to slaughter.

- CTA Case AC No. 209, filed on August 23, 2018
- CTA Case AC No. 210, filed on November 12, 2018

It is SMFI's position that Section 367 (a) of the 2005 Revenue Code of the City of Davao (Revenue Code of Davao City) on the imposition of permit fee to slaughter is applicable only to slaughterhouses operated by the City Government of Davao City. SMFI's dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District, being privately owned and operated slaughterhouses is beyond the coverage of Section 357 (a) of the Revenue Code of Davao City. In addition, given that SMFI is already paying ante and post mortem fees for the slaughter of poultry products pursuant to Section 367 (d) of the same Revenue Code, the assessment of permit fee to slaughter would constitute double taxation.

By the order of CTA dated September 24, 2018, Case CTA AC 209 was transferred to the First Division of the CTA. In a resolution dated October 25, 2018 CTA First Division resolved to give due course to SMFI's Petition for Review. SMFI submitted the required memorandum on December 19, 2018. In its May 29, 2020 decision, the CTA dismissed the petition. On June 23, 2020, SMFI filed a Motion for Reconsideration of the decision while on December 16, 2020, the CTA deemed the petition submitted for decision.

In a resolution dated February 1, 2019 on SMFI's Petition for Review on CTA Case AC No. 210, the CTA First Division required the parties to submit the respective Memorandum on this case. On May 17, 2019, SMFI submitted the required Memorandum. In its July 3, 2020 decision, the CTA dismissed the petition. On September 10, 2020, SMFI filed a Motion for Reconsideration of the decision and still awaiting the court's decision.

Meanwhile, two consolidated cases on similar issues were dismissed by the RTC on October 12, 2020. On February 26, 2021, SMFI filed with the CTA another Petition for Review docketed as AC No. 249. SMFI is awaiting resolution from the CTA on the petition.

- Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on certiorari dated December 5, 2012. On July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR. The Supreme Court issued its Entry of Judgment declaring that its decision dated July 9, 2018 in Petron's favor already attained finality on April 1, 2019. This case could now be considered closed and terminated.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases were pending as at December 31, 2020. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City. On January 9, 2020, the Court of Appeals issued a Resolution granting plaintiffs' motion for reconsideration of the earlier resolution denying their petition and ordering Petron to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, Petron filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far.

- Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. Petron also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted Petron's motion for summary judgment and ordered: (i) the rescission of the Deeds of Conveyance dated 1993 relating to Petron's conveyance of such leased premises to PNOC pursuant to a property

dividend declaration in 1993, (ii) the reconveyance by PNOC to Petron of all such properties, and (iii) the payment by Petron to PNOC of the amount of P143, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. Petron also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to Petron all lease payments the latter had paid to PNOC since 1993.

Following the trial court's denial of their separate motions for reconsideration, both PNOC and Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020 while PNOC filed its appellant's brief on November 5, 2020.

The motions for reconsiderations were pending as at March 11, 2021.

- Swakaya Sdn Bhd (Swakaya) Dispute

In 2015, a disputed trade receivable balance of RM25 (P307) in favor of POMSB was reclassified to long-term receivables.

The dispute arose from the supply by POMSB of diesel to Swakaya. In 2013, POMSB entered into an agreement with Swakaya to supply it with diesel. Swakaya had agreements to supply power plants operator with diesel for power generation. Later, due to a government investigation, Swakaya's bank accounts were frozen and that affected its ability to supply the power plants. Swakaya and the power plants operator agreed to ask POMSB to supply the power plants operator directly and for the said operator to pay POMSB directly for diesel supplied. This arrangement commenced. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank (SDB) and the power plants operator was placed under an obligation to SDB to remit payments due to Swakaya to SDB. Due to some administrative issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. SDB then, despite its earlier promise to POMSB to remit the moneys to POMSB once POMSB establishes that the payment was for a direct supply to the power plants operator, refused and utilized the moneys to set off against Swakaya's debt to the bank. The sum involved was RM25 (P307). POMSB sued Swakaya and SDB before the Kota Kinabalu High Court for, among others, breach of trust. Swakaya did not appear in court and judgment was awarded in favor of POMSB and against Swakaya.

In April 2016, the Kota Kinabalu High Court ruled in favor of POMSB and a judgment sum inclusive of interest amounting to RM28 (P343) was deposited to its solicitor account in August 2016. SDB subsequently filed an appeal to Court of Appeal.

In May 2017, the Court of Appeal re-affirmed the decision of the Kota Kinabalu High Court and dismissed SDB's appeal with costs RM0.015 (P0.20) awarded to POMSB. In June 2017, SDB filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal, which was granted in April 2018. After hearing the appeal, in February 2020, the Federal Court allowed the appeal by SDB and set aside the Court of Appeal's decision. POMSB is preparing to file for a review by the Federal Court (to set aside its own decision).

Considering the length of time of litigation matters, a discount of RM8 (P95) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 (P20) was unwound in 2019 and recognized as interest income.

The balance amounting to RM23 (P282) was provided full impairment in 2019.

As at March 11, 2021, an application for review was filed by POMSB at Federal Court and hearing date has yet to be scheduled.

- Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016 (the "June 27, 2016 RTC Order"), the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders". The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the "2018 CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the Supreme Court praying for the reversal and nullification of the CA Decision and the 2018 CA Resolution. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution") due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of the Court of Appeals' discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the Supreme Court in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgment issued by the Supreme Court on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City.

SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "2019 CA Resolution"), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the 2019 CA Resolution. In a Resolution dated February 24, 2020, the Court of Appeals required PSALM to revise its petition and send the revised copies to SPPC and Meralco.

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion in March 2020.

On February 14, 2020, during the hearing of PSALM's Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction, the RTC issued an Order that did not allow PSALM to present witnesses in support of the motion and directed the parties to submit pleadings and documents in support of their respective positions.

On May 26, 2020, SPPC filed a Supplemental Opposition to PSALM's Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction, citing SPPC's letter dated March 6, 2020 informing PSALM of its intention to advance the full settlement of the Monthly Payments due for the period March 26, 2020 until the end of the IPPA Agreement on June 26, 2022. SPPC stated that given this intention, PSALM can no longer assert that it stands to suffer injury in the form of reduction in expected cash or that the Government would be exposed to financial risk.

PSALM filed several pleadings: (1) Urgent Ex-Parte Motion for Early Resolution of its Motion for Leave to File Amended Answer Ad Cautelam dated May 28, 2020; (b) Motion for Reconsideration of the RTC's Order of February 14, 2020, which did not allow PSALM to present witnesses in support of its Motion to Dissolve the Writ of Preliminary Injunction and directed the parties to submit pleadings and documents in support of their respective positions; and (3) Reply to SPPC's Opposition to its Motion to Dissolve the Writ of Preliminary Injunction. On July 6, 2020, SPPC filed an Opposition to the Motion for Reconsideration filed by PSALM on the RTC's Order of February 14, 2020.

PSALM also filed a Reply to SPPC's Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction. In August 2020, PSALM also filed a Reply to the Supplemental Opposition to the Motion Ad Cautelam to Dissolve the Writ of Preliminary Injunction. On September 14, 2020, SPPC filed a Motion to Admit Consolidated Rejoinder and Consolidated Rejoinder. The Consolidated Rejoinder addresses both PSALM's Reply to the Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction and its Reply to SPPC's Supplemental Opposition to the same motion.

In September 2020, PSALM filed an Urgent Ex Parte Motion for Early Resolution of its Motion for Leave to File the Amended Answer Ad Cautelam.

In an Order dated November 17, 2020, the RTC considered as submitted for resolution, PSALM's Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction.

In an Order dated November 27, 2020, the RTC denied PSALM's Motion for Leave to File the Amended Answer Ad Cautelam.

On January 15, 2021, SPPC filed a Motion for Summary Judgment, praying that judgment be rendered in favor of SPPC on all its causes of action based on the pleadings, affidavits, and admissions on file. PSALM has filed an Opposition to the motion.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without any restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in 2022.

- Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOP HL). The IPOP HL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOP HL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. The Supreme Court denied GSMI's Motion for Reconsideration with finality, as well as GSMI's Motion to Refer to its Motion for Reconsideration to the Supreme Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the "Manifestation") and invoked the case of "*League of Cities vs. Commission of Elections*" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the Supreme Court *En Banc* issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter's resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI's Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten (10) days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

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

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

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

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduary Distillers, Inc. (TDI) filed with the RTC, arising from TDI's distribution and sale of its gin product bearing the trademark "Ginebra Kapitan" and use of a bottle which general appearance was nearly identical and confusingly similar to GSMI's product. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product", and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review on Certiorari with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court on April 18, 2016.

On October 26, 2016, GSMI filed its Comment on TDI's Petition for Review on Certiorari.

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

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

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

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 covering gin with the IPOP HL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOP HL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin"; (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like "GINEBRA KAPITAN"; and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

On July 23, 2014, the Court of Appeals reversed and set aside the IPOP HL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduy Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comment on TDI's Petition for Review on Certiorari.

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

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

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

- Imported Industrial Fuel Oil

SLHBTC has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 or one and one-half times of the assessed amount of P82 representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

However, by Order dated September 25, 2018, the case was transferred to the CTA First Division.

The latest court hearing for the presentation of evidence was made in February 2020.

On December 1, 2020, the customs officer was recalled to stand as a hostile rebuttal witness in the trial. He was cross-examined by the SLHBTC legal counsel and admitted that he did not examine the imported documents prior to recommending the issuance of a Writ of Seizure & Detention. As at the report date, the case is still pending decision with the CTA.

- Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount US\$60. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

- Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and To Allow Future Consignment without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignment.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignment filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignment case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case.

On December 13, 2019, the case was re-raffled to Branch 268. On February 7, 2020, a clarificatory hearing was held and Branch 268 noted the pending incidents, which are: (a) SMEC's Motion for Partial Reconsideration and Supplemental Motion for Reconsideration of the Order dated May 22, 2018; (b) SMEC's two Motions to Admit Supplemental Complaint; and (c) PSALM's Motion to Set Preliminary Hearing on the Special and Affirmative Defenses.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at December 31, 2020 and 2019 the total amount consigned with the RTC Pasig is P491, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position (Note 18).

- TRO Issued to Meralco

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction (“Petition”) filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco’s customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition (“Counter-Petition”) which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an order treating the Counter-Petition as in the nature of a third party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the Supreme Court extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a resolution dated April 22, 2014, the Supreme Court extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the Supreme Court.

- ERC Order Voiding WESM Prices

Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the “March 3, 2014 Order”). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC and MPPCL filed various pleadings requesting ERC for the reconsideration of the March 3, 2014 Order. Other generators also requested the Supreme Court to stop the implementation of the March 3, 2014 Order.

On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 27 and May 9, 2014 (the "2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its decision dated November 7, 2017 (the "November 7, 2017 Decision"), granted the Petition for Review filed by SMEC, SPPC, SPDC, and MPPCL, declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a resolution dated March 22, 2018 (the "March 22, 2018 Resolution"), the Court of Appeals denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC, SPPC and SPDC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming the November 7, 2017 Decision and the March 22, 2018 Resolution.

The intervenors thereafter filed petitions for certiorari before the Supreme Court, First Division. Each were denied by the Supreme Court through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the Court of Appeals committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene.

MPPCL filed on January 22, 2020, while SMEC, SPPC and SPDC filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the Supreme Court. In its petition, the ERC appealed the November 7, 2017 Decision and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

PEMC also filed a Motion to Admit Comment and Comment on the ERC's Petition for Review both dated March 12, 2020.

In a Resolution dated February 10, 2020, the Supreme Court directed the respondents to file their respective Comments on the Petition for Review filed by Meralco ("Meralco Petition"). SMEC, SPPC and SPDC, received, through counsel, a copy of the Resolution on June 25, 2020. SMEC, SPPC and SPDC filed on July 15, 2020, while MPPCL filed on July 16, 2020, their Comments on the Meralco Petition, all within the period of extension granted by the Supreme Court.

On July 9, 2020, AP Renewables Inc. ("APRI") filed a Motion to Consolidate praying for the Supreme Court to direct the consolidation of the foregoing case with ERC v. SMEC, et. al. (SC-G.R. Nos. 246621-30, First Division). The ERC, through the Office of the Solicitor General, filed a Manifestation and Motion dated September 15, 2020, agreeing with APRI but deferring to the judgment of the Supreme Court on the matter.

On July 21, 2020, Meralco filed a Motion for Leave to File and Admit the Attached Manifestation with Manifestation, both of even date, (collectively, "Meralco Manifestation"), praying that the Supreme Court apply the ruling in the case of PSALM v. PEMC (G.R. No. 190199, March 11, 2020) in resolving the instant case. The Supreme Court has not yet issued an order to respondents to comment on said Meralco Manifestation.

On September 22, 2020, SMEC, SPPC and SPDC filed motions to admit their Comment on the Meralco Manifestation.

Entries of judgment have been issued by the Supreme Court certifying that the resolutions denying the Petitions for Review on Certiorari filed by various intervenors against SMEC, SPPC, SPDC and MPPCL, among others, have become final and executory.

In a Resolution dated November 4, 2020, the Supreme Court directed the consolidation of the separate petitions filed by the ERC and Meralco considering that said cases involve the same parties, raise the same issues, and assail the same decision and resolution, and the transfer of the Meralco Petition to the third division of the Supreme Court handling the petition by the ERC.

The ERC has also filed its Consolidated Reply to the comments on its petition dated November 18, 2020.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322, plus interest.

b. *EPIRA*

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which SMC Global was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2020 and 2019.

c. *Notice of Withdrawal of PCC Notification for the Acquisition of Holcim Philippines, Inc. (HPI)*

On May 10, 2019, SMC, through FSCII, a subsidiary of SMEII, signed a definitive agreement to acquire a controlling interest in HPI from entities controlled by Lafarge Holcim which was subject to the PCC review and approval.

On April 23, 2020, the PCC issued Commission Resolution No. 010-2020 which resolved to suspend all proceedings pending before it during the ECQ period in accordance with Administrative Order No. 30, issued by the President of the Philippines on April 21, 2020. On May 10, 2020, SMC disclosed to the PSE, that the agreement to acquire the 85.73% shares of HPI, between and among FSCII, SMC and Holderfin B.V. dated May 10, 2019, has lapsed in accordance with its terms. The completion of the acquisition required the approval of the PCC which was not able to be achieved. In view of the foregoing, the proposed acquisition by FSCII of the 85.73% of HPI shall no longer proceed. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders which was made by SMC on September 23, 2019. On May 13, 2020, the Parent Company filed a notice of withdrawal of its notification to the PCC covering the aforementioned proposed acquisition.

d. Effect of COVID-19

The Group has been affected by the lockdown, different quarantine restrictions, liquor bans and travel restrictions implemented by the government in the first half of 2020.

The government's relaxation of the quarantine restrictions starting mid-May had an immediate positive effect on the Group's operations. The Group posted consolidated net income in the second half, 25% higher than the same period last year, reversing the losses incurred in the first half. The improvement of the performance in the second half was mainly brought about by the sustained performance recoveries from all major subsidiaries. Sales volumes of SMB and GSMI significantly improved and Petron, in particular, bounced back to profitability. Demand for power continued to increase with the opening of more commercial and industrial establishments. Traffic volumes on operating toll roads have also improved.

The Group's consolidated sales and operating income in 2020 were still lower than 2019, despite the recoveries in the second half.

e. Commitments

The outstanding purchase commitments of the Group amounted to P111,845 as at December 31, 2020.

Amount authorized but not yet disbursed for capital projects is approximately P255,100 as at December 31, 2020.

f. Foreign Exchange Rates

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

g. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
 MARCH 31, 2021 AND DECEMBER 31, 2020
 (In Millions)

ASSETS

	2021 Unaudited	2020 Audited
Current Assets		
Cash and cash equivalents (Notes 9 and 10)	P 337,073	P 347,962
Trade and other receivables - net (Notes 5, 9 and 10)	115,706	120,965
Inventories	94,697	102,828
Current portion of biological assets - net	3,261	3,401
Prepaid expenses and other current assets (Notes 2, 5, 9 and 10)	96,663	94,833
Total Current Assets	647,400	669,989
Noncurrent Assets		
Investments and advances - net (Note 2)	48,328	50,529
Investments in equity and debt instruments (Notes 9 and 10)	6,004	5,985
Property, plant and equipment - net (Note 6)	551,692	543,371
Right-of-use assets - net	190,840	192,104
Investment property - net	67,064	62,370
Biological assets - net of current portion	2,113	2,352
Goodwill	120,462	120,463
Other intangible assets - net	277,054	276,250
Deferred tax assets (Note 2)	18,488	21,262
Other noncurrent assets - net (Notes 5, 9 and 10)	79,923	80,869
Total Noncurrent Assets	1,361,968	1,355,555
	P 2,009,368	P 2,025,544

LIABILITIES AND EQUITY

	2021 Unaudited	2020 Audited
Current Liabilities		
Loans payable (Notes 5, 9 and 10)	P 146,768	P 149,475
Accounts payable and accrued expenses (Notes 5, 9 and 10)	164,907	164,897
Lease liabilities - current portion (Notes 5, 9 and 10)	28,016	27,622
Income and other taxes payable (Note 2)	20,998	21,031
Dividends payable (Note 8)	2,139	3,681
Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	86,629	74,597
Total Current Liabilities	449,457	441,303
Noncurrent Liabilities		
Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	688,230	692,165
Lease liabilities - net of current portion (Notes 5, 9 and 10)	88,181	94,565
Deferred tax liabilities (Note 2)	67,759	70,740
Other noncurrent liabilities (Notes 5, 9 and 10)	39,928	39,651
Total Noncurrent Liabilities	884,098	897,121
Equity		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common	490	490
Capital stock - preferred	260	260
Additional paid-in capital	120,501	120,501
Convertible perpetual securities	25,158	25,158
Equity reserves (Note 2)	2,833	3,955
Retained earnings:		
Appropriated	25,344	21,297
Unappropriated (Note 2)	63,927	64,363
Treasury stock	(76,780)	(76,780)
	161,733	159,244
Non-controlling Interests (Note 2)	514,080	527,876
Total Equity	675,813	687,120
	P 2,009,368	P 2,025,544

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:


 BELVA D. NAVARRA
 Chief Financial Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions, Except Per Share Data)

	<u>2021</u> <u>Unaudited</u>	<u>2020</u> <u>Unaudited</u>
SALES (Note 3)	P 201,157	P 214,060
COST OF SALES	<u>149,292</u>	<u>181,685</u>
GROSS PROFIT	51,865	32,375
SELLING AND ADMINISTRATIVE EXPENSES	(20,050)	(21,055)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(11,585)	(12,685)
INTEREST INCOME	847	2,087
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	320	(45)
GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT	1	(331)
OTHER INCOME (CHARGES) - Net (Note 4)	<u>(2,768)</u>	<u>3,155</u>
INCOME BEFORE INCOME TAX	18,630	3,501
INCOME TAX EXPENSE (Note 2)	<u>2,253</u>	<u>2,895</u>
NET INCOME	<u>P 16,377</u>	<u>P 606</u>
Attributable to:		
Equity holders of the Parent Company	P 3,621	P (2,334)
Non-controlling interests	<u>12,756</u>	<u>2,940</u>
	<u>P 16,377</u>	<u>P 606</u>
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	P 9.74	P (8.29)

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:


BELLA O. NAVARRA
 Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions)

	<u>2021</u>	<u>2020</u>
	<u>Unaudited</u>	<u>Unaudited</u>
NET INCOME	P 16,377	P 606
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	-	(12)
INCOME TAX BENEFIT (EXPENSE) (Note 2)	(471)	3
NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	19	21
INCOME TAX EXPENSE	(4)	(5)
SHARE IN OTHER COMPREHENSIVE LOSS OF ASSOCIATES AND JOINT VENTURES - Net	(97)	(61)
	<u>(553)</u>	<u>(54)</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
LOSS ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(852)	(3,302)
NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	(1)
NET GAIN (LOSS) ON CASH FLOW HEDGES	466	(45)
INCOME TAX BENEFIT (EXPENSE)	(146)	26
	<u>(532)</u>	<u>(3,322)</u>
OTHER COMPREHENSIVE LOSS - Net of tax	<u>(1,085)</u>	<u>(3,376)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	P 15,292	P (2,770)
Attributable to:		
Equity holders of the Parent Company	P 3,421	P (3,256)
Non-controlling interests	11,871	486
	<u>P 15,292</u>	<u>P (2,770)</u>

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:


BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company														Non-controlling Interests	Total Equity
	Capital Stock		Additional Paid-in Capital	Convertible Perpetual Securities	Equity Reserves				Retained Earnings		Treasury Stock		Total			
	Common	Preferred			Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common		Preferred		
As of January 1, 2021 (Audited)	P 490	P 260	P 120,501	P 25,158	P (3,293)	P (431)	P 1,536	P (4,827)	P 10,970	P 21,297	P 64,363	P (28,457)	P (48,323)	P 159,244	P 527,876	P 687,120
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(159)	-	-	-	-	-	(159)	(693)	(852)
Share in other comprehensive income (loss) of associates and joint ventures - net	-	-	-	-	-	-	(67)	3	-	-	-	-	-	(64)	(33)	(97)
Net gain on cash flow hedges, net of tax	-	-	-	-	-	193	-	-	-	-	-	-	-	193	127	320
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	8	-	-	-	-	-	-	8	7	15
Equity reserve for retirement plan	-	-	-	-	(178)	-	-	-	-	-	-	-	-	(178)	(293)	(471)
Other comprehensive income (loss)	-	-	-	-	(178)	193	(59)	(156)	-	-	-	-	-	(200)	(885)	(1,085)
Net income	-	-	-	-	-	-	-	-	-	-	3,621	-	-	3,621	12,756	16,377
Total comprehensive income (loss)	-	-	-	-	(178)	193	(59)	(156)	-	-	3,621	-	-	3,421	11,871	15,292
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(34)	-	-	16	(904)	-	(10)	-	-	(932)	(17,320)	(18,252)
Appropriations - net	-	-	-	-	-	-	-	-	-	4,047	(4,047)	-	-	-	-	-
Cash dividends and distributions (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,454)	(2,454)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,232)	(2,232)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(703)	(703)
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,908)	(2,908)
Redeemable perpetual securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(50)	(50)
As of March 31, 2021 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (3,505)	P (238)	P 1,477	P (4,967)	P 10,066	P 25,344	P 63,927	P (28,457)	P (48,323)	P 161,733	P 514,080	P 675,813
As of January 1, 2020 (Audited)	P 490	P 260	P 120,501	P 25,158	P (3,128)	P (405)	P 1,533	P (2,966)	P 11,367	P 19,010	P 67,398	P (28,457)	P (48,323)	P 162,438	P 439,622	P 602,060
Loss on exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(878)	-	-	-	-	-	(878)	(2,424)	(3,302)
Share in other comprehensive loss of associates and joint ventures - net	-	-	-	-	-	-	(12)	(22)	-	-	-	-	-	(34)	(27)	(61)
Net loss on cash flow hedges, net of tax	-	-	-	-	-	(18)	-	-	-	-	-	-	-	(18)	(1)	(19)
Net gain on financial assets at fair value through other comprehensive income	-	-	-	-	-	-	9	-	-	-	-	-	-	9	6	15
Equity reserve for retirement plan	-	-	-	-	(3)	-	-	-	-	-	-	-	-	(1)	(8)	(9)
Other comprehensive loss	-	-	-	-	(1)	(18)	(3)	(900)	-	-	-	-	-	(922)	(2,454)	(3,376)
Net income (loss)	-	-	-	-	-	-	-	-	-	-	(2,334)	-	-	(2,334)	2,940	606
Total comprehensive income (loss)	-	-	-	-	(1)	(18)	(3)	(900)	-	-	(2,334)	-	-	(3,256)	486	(2,770)
Net addition (reduction) to non-controlling interests and others	-	-	-	-	(1)	-	-	23	(474)	(1,844)	1,707	-	-	(589)	15,651	15,062
Appropriations - net	-	-	-	-	-	-	-	-	-	2,192	(2,192)	-	-	-	-	-
Cash dividends and distributions (Note 8):	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,877)	(2,877)
Preferred	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,309)	(2,309)
Undated subordinated capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(735)	(735)
Senior perpetual capital securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(834)	(834)
As of March 31, 2020 (Unaudited)	P 490	P 260	P 120,501	P 25,158	P (3,130)	P (423)	P 1,530	P (3,843)	P 10,893	P 19,358	P 64,579	P (28,457)	P (48,323)	P 158,593	P 449,004	P 607,597

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

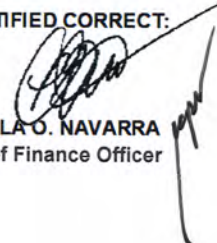

BRIAN J. NAVARRA
 Chief Financial Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2021 AND 2020
(In Millions)

	2021	2020
	<u>Unaudited</u>	<u>Unaudited</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 18,630	P 3,501
Adjustments for:		
Interest expense and other financing charges	11,585	12,685
Depreciation, amortization and others - net	12,658	12,626
Loss (gain) on sale of property and equipment	(1)	331
Equity in net losses (earnings) of associates and joint ventures	(320)	45
Interest income	(847)	(2,087)
Operating income before working capital changes	<u>41,705</u>	<u>27,101</u>
Changes in noncash current assets, certain current liabilities and others	<u>10,440</u>	<u>(14,156)</u>
Cash generated from operations	52,145	12,945
Interest and other financing charges paid	(11,131)	(13,115)
Income taxes paid	(1,321)	(2,096)
Net cash flows provided by (used in) operating activities	<u>39,693</u>	<u>(2,266)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(13,537)	(16,330)
Additions to intangible assets	(2,189)	(2,322)
Additions to investment property	(1,857)	(377)
Increase in other noncurrent assets and others	(687)	(4,900)
Additions to investments and advances and investment in debt instruments	(348)	(287)
Interest received	789	2,022
Proceeds from sale of property and equipment	127	133
Dividends received	-	3
Net cash flows used in investing activities	<u>(17,702)</u>	<u>(22,058)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	185,630	274,080
Long-term borrowings	31,001	124,295
Payments of:		
Short-term borrowings	(188,288)	(274,015)
Long-term borrowings	(26,244)	(3,584)
Redemption of capital securities and preferred shares of subsidiaries	(19,582)	(15,000)
Cash dividends and distributions paid to non-controlling shareholders	(9,888)	(6,512)
Payments of lease liabilities	(6,708)	(6,349)
Decrease in non-controlling interests and others	(167)	(138)
Net proceeds from issuance of capital securities of a subsidiary	-	30,170
Net cash flows provided by (used in) financing activities	<u>(34,246)</u>	<u>122,947</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,366</u>	<u>(852)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,889)	97,771
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>347,962</u>	<u>286,677</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>P 337,073</u>	<u>P 384,448</u>

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:


BELLA O. NAVARRA
Chief Finance Officer

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2021
(In Millions)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	P 68,964	P 46,348	P 4,711	P 1,761	P 1,119	P 15,025
Non-trade	49,504	24,912	447	707	500	22,938
Amounts Owed by Related Parties	10,926	9,730	24	10	142	1,020
Total	129,394	P <u>80,990</u>	P <u>5,182</u>	P <u>2,478</u>	P <u>1,761</u>	P <u>38,983</u>
Less allowance for impairment losses	13,688					
Net	P <u>115,706</u>					

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data)

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended March 31, 2021 and comparative financial statements for the same period in 2020 following the presentation rules under Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) on May 6, 2021.

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards as part of PFRS.

Amended Standards Adopted in 2021

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

- 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, *Leases*). To ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
 - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

- *Relief from Specific Hedge Accounting Requirements.* The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
- *Disclosure Requirements.* To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

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

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

Except as otherwise indicated, the adoption of the amended standards did not have a material effect on the interim 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 interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

- Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16) 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 2021 amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are applied retrospectively with the cumulative effect of initially applying it as an adjustment to the opening balance of retained earnings. Earlier application is permitted.

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

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

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

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

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments 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.

- Taxation in Fair Value Measurements (Amendment to PAS 41, *Agriculture*). The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13, *Fair Value Measurement*.

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 the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
 - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

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

- PFRS 17, *Insurance Contracts*, replaces the interim standard, PFRS 4, and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The new standard reflects the view that an insurance contract combines features of both a financial instrument and a service contract, and considers the fact that many insurance contracts generate cash flows with substantial variability over a long period. PFRS 17 introduces a new approach that: (a) combines current measurement of the future cash flows with the recognition of profit over the period services are provided under the contract; (b) presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and (c) requires an entity to make an accounting policy choice

portfolio-by-portfolio of whether to recognize all insurance finance income or expenses for the reporting period in profit or loss or to recognize some of that income or expenses in other comprehensive income.

Under PFRS 17, groups of insurance contracts are measured based on fulfilment cash flows, which represent the risk-adjusted present value of the entity's rights and obligations to the policy holders, and a contractual service margin, which represents the unearned profit the entity will recognize as it provides services over the coverage period. Subsequent to initial recognition, the liability of a group of insurance contracts represents the liability for remaining coverage and the liability for incurred claims, with the fulfilment cash flows remeasured at each reporting date to reflect current estimates.

Simplifications or modifications to the general measurement model apply to groups of insurance contracts measured using the 'premium allocation approach', investment contracts with discretionary participation features, and reinsurance contracts held.

PFRS 17 brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings.

PFRS 17 is effective for annual periods beginning on or after January 1, 2023. Full retrospective application is required, unless it is impracticable, in which case the entity chooses to apply the modified retrospective approach or the fair value approach. However, if the entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, then it applies the fair value approach. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

- 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.

- 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.

Deferral of the local implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

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

Originally, the amendments apply prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. However, on January 13, 2016, the FRSC decided to postpone the effective date until the International Accounting Standards Board 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.

2. Impact of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law

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, was passed into law on March 26, 2021. One of the key provisions of the CREATE Law is an immediate 5%-10% point cut in the corporate income tax rate starting July 2020. As a result, the Group has taken up in the books the effect of the application of reduced corporate income tax rate from 30% to 25%.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE law are as follows:

	Increase (decrease)
ASSETS	
Prepaid expenses and other current assets	P407
Investments and advances - net	9
Deferred tax assets	(2,080)
	(P1,664)
LIABILITIES	
Income and other taxes payable	(P881)
Deferred tax liabilities	(3,892)
	(P4,773)

	Increase (decrease)
EQUITY	
Equity reserves	(P217)
Retained earnings	2,216
Non-controlling interests	1,110
	3,109
TOTAL LIABILITIES AND EQUITY	(P1,664)
INCOME BEFORE INCOME TAX	
Equity in net earnings of associates and joint ventures	P9
INCOME TAX EXPENSE	
Current	(1,299)
Deferred	(2,319)
	(3,618)
NET INCOME	P3,627
Attributable to:	
Equity holders of the Parent Company	P2,216
Non-controlling interests	1,411
	P3,627

3. 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 and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, energy, fuel and oil, infrastructure and mining.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively known as "Prepared and Packaged Food"), (ii) the production and sale of feeds ("Animal Nutrition and Health"), (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats ("Protein"), and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market.

The fuel and oil segment is engaged in refining crude oil and marketing and distribution of refined petroleum products.

The infrastructure segment has investments in companies which hold long-term concessions in the infrastructure sector in the Philippines. It is engaged in the management and operation, as well as, construction and development of various infrastructure projects such as major toll roads, airports, railways and bulk water.

The mining segment is engaged in exploration, development and commercial utilization of nickel, cobalt, chrome, iron, gold and other mineral deposits.

Inter-segment Transactions

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

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement, Real Estate, Mining and Others		Eliminations		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Sales																
External sales	P76,341	P68,973	P6,035	P5,789	P26,411	P27,475	P81,999	P103,127	P4,330	P4,660	P6,041	P4,036	P -	P -	P201,157	P214,060
Inter-segment sales	21	45	1,319	2,707	955	823	1,308	1,496	-	1	6,427	5,625	(10,030)	(10,697)	-	-
Total sales	P76,362	P69,018	P7,354	P8,496	P27,366	P28,298	P83,307	P104,623	P4,330	P4,661	P12,468	P9,661	(P10,030)	(P10,697)	P201,157	P214,060
Results																
Segment results	P12,491	P8,565	P393	P570	P8,237	P7,637	P8,599	(P6,637)	P1,156	P1,746	P597	(P680)	P342	P119	P31,815	P11,320

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Cement, Real Estate, Mining and Others		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Timing of revenue recognition														
Sales recognized at point in time	P76,339	P68,971	P5,834	P5,580	P -	P -	P81,999	P103,119	P -	P -	P5,486	P3,332	P169,658	P181,002
Sales recognized over time	2	2	201	209	26,411	27,475	-	8	4,330	4,660	555	704	31,499	33,058
Total external sales	P76,341	P68,973	P6,035	P5,789	P26,411	P27,475	P81,999	P103,127	P4,330	P4,660	P6,041	P4,036	P201,157	P214,060

4. Other Income (Charges)

Other income (charges) consists of:

		March 31	
	Note	2021	2020
Power Sector Assets and Liabilities			
Management Corporation monthly fees reduction		P2,156	P -
Construction revenue		1,205	5,073
Income for liquidated damages		-	1,931
Dividend income		-	3
Gain (loss) on derivatives - net	10	(3,896)	2,150
Construction costs		(1,205)	(5,073)
Loss on foreign exchange - net	9	(933)	(417)
Others		(95)	(512)
		(P2,768)	P3,155

The construction revenue recognized in profit or loss approximates the construction costs recognized. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs are recognized by reference to the stage of completion of the construction activity of toll road, airport and water concession rights as at reporting date.

Income from liquidated damages in 2020 pertains to settlement received by the Group from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts.

"Others" consist of rent income, commission income and changes in fair value of financial assets at fair value through profit or loss (FVPL). In 2020, the amount also includes San Miguel Yamamura Packaging Corporation Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila amounting to P295.

5. Related Party Disclosures

Top Frontier Investment Holdings, Inc. (Top Frontier or the Parent Company), certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. The Parent Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the consolidated total assets based on its latest audited financial statements.

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

The following are the transactions with related parties and the outstanding balances as at March 31, 2021 and December 31, 2020:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Shareholders of the Parent Company	March 31, 2021	P -	P -	P -	P10,412	On demand;	Unsecured
	December 31, 2020	-	-	-	10,304	interest bearing	
	March 31, 2021	-	-	-	221	On demand;	Unsecured
	December 31, 2020	-	-	-	221	non-interest	
Retirement Plans	March 31, 2021	65	-	9,117	-	On demand;	Unsecured;
	December 31, 2020	294	-	9,044	-	interest bearing	no impairment
Associates	March 31, 2021	341	-	649	28	On demand;	Unsecured;
	December 31, 2020	2,086	18	761	29	interest and non-interest bearing	no impairment
	March 31, 2021	-	-	-	16,157	Less than 1	Unsecured and
	December 31, 2020	-	-	-	16,925	to 10 years; interest bearing	secured
Joint Ventures	March 31, 2021	63	694	739	226	On demand;	Unsecured;
	December 31, 2020	272	1,484	742	521	non-interest bearing	no impairment
Shareholders in Subsidiaries	March 31, 2021	26	88	207	2,274	On demand;	Unsecured;
	December 31, 2020	60	470	187	2,250	non-interest bearing	no impairment
Others	March 31, 2021	693	786	360	117	On demand;	Unsecured;
	December 31, 2020	1,730	2,574	492	11	non-interest bearing	no impairment
	March 31, 2021	-	-	-	7,397	More than one	Unsecured;
	December 31, 2020	-	-	-	7,277	year; interest and non-interest bearing	no impairment
Total	March 31, 2021	P1,188	P1,568	P11,072	P36,832		
Total	December 31, 2020	P4,442	P4,546	P11,226	P37,538		

- a. Interest-bearing payable owed to a shareholder of the Parent Company were used for working capital purposes. This is subject to 3.00% interest per annum, which was renegotiated in 2017. The parties agreed in writing that the 3.00% interest per annum will accrue beginning on the relevant year when SMC has commenced the management and operations of its Manila International Airport Project, a project that involves the construction, operation and maintenance of an international airport in Bulacan. This payable has no definite payment terms and considered payable upon demand.
- b. Amounts owed by related parties consist of current and noncurrent receivable, advances to suppliers and deposits, and share in expenses.
- c. Amounts owed to related parties consist of trade payables, professional fees and leases.
- d. The amounts owed to associates include interest bearing loans payable to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

6. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2021 and December 31, 2020

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2020 (Audited)	P67,911	P55,592	P123,506	P174,187	P19,284	P176,810	P7,101	P5,663	P93,437	P723,491
Additions	1,272	342	953	446	560	3,717	66	-	56,481	63,837
Consolidation of a subsidiary	2,581	2,042	-	-	-	11,418	-	7	790	16,838
Disposals/retirement	(20)	(172)	-	(5)	(91)	(5,189)	(28)	-	(38)	(5,543)
Reclassifications and others	1,564	8,624	24,903	1,757	349	12,673	566	-	(49,461)	975
Currency translation adjustments	(143)	(261)	(2,671)	(430)	(315)	(750)	10	-	(1,557)	(6,117)
December 31, 2020 (Audited)	73,165	66,167	146,691	175,955	19,787	198,679	7,715	5,670	99,652	793,481
Additions	664	21	64	252	42	828	4	-	11,662	13,537
Disposals/retirement	(1)	(51)	-	-	(45)	(481)	(47)	-	(4)	(629)
Reclassifications and others	671	1,206	44	1,051	(47)	2,876	32	-	(4,995)	838
Currency translation adjustments	(74)	2	729	(239)	(174)	11	-	-	(198)	57
March 31, 2021 (Unaudited)	74,425	67,345	147,528	177,019	19,563	201,913	7,704	5,670	106,117	807,284
Accumulated Depreciation and Amortization										
January 1, 2020 (Audited)	3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	380	2,001	5,713	3,128	1,028	9,493	397	14	-	22,154
Consolidation of a subsidiary	88	511	-	-	-	5,894	-	6	-	6,499
Disposals/retirement	(16)	(109)	-	(5)	(60)	(3,988)	(27)	-	-	(4,205)
Reclassifications	(5)	30	-	81	15	(248)	(39)	-	-	(166)
Currency translation adjustments	(6)	(131)	(1,103)	(318)	(172)	(454)	3	-	-	(2,181)
December 31, 2020 (Audited)	4,139	23,076	16,289	60,605	13,691	112,453	2,100	4,964	-	237,317
Depreciation and amortization	115	540	1,524	745	245	2,529	106	3	-	5,807
Disposals/retirement	(1)	(38)	-	-	(32)	(391)	(41)	-	-	(503)
Reclassifications	86	108	-	-	33	28	-	-	-	255
Currency translation adjustments	(3)	(19)	225	(174)	(99)	(55)	-	-	-	(125)
March 31, 2021 (Unaudited)	4,336	23,667	18,038	61,176	13,838	114,564	2,165	4,967	-	242,751
Accumulated Impairment Losses										
January 1, 2020 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Impairment	-	-	-	-	-	35	-	-	-	35
Consolidation of a subsidiary	-	-	-	-	-	330	-	-	-	330
Disposals/retirement	-	-	-	-	-	(13)	-	-	-	(13)
Reclassifications	-	-	-	-	-	(11)	-	-	-	(11)
Currency translation adjustments	-	27	-	-	-	(38)	2	-	-	(9)
December 31, 2020 (Audited)	-	2,741	-	-	-	9,453	26	573	-	12,793
Reclassifications	-	-	-	-	-	(9)	-	-	-	(9)
Currency translation adjustments	-	12	-	-	-	45	-	-	-	57
March 31, 2021 (Unaudited)	-	2,753	-	-	-	9,489	26	573	-	12,841
Carrying Amount										
December 31, 2020 (Audited)	P69,026	P40,350	P130,402	P115,350	P6,096	P76,773	P5,589	P133	P99,652	P543,371
March 31, 2021 (Unaudited)	P70,089	P40,925	P129,490	P115,843	P5,725	P77,860	P5,513	P130	P106,117	P551,692

March 31, 2020

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Mine and Mining Property	Capital Projects in Progress	Total
Cost										
January 1, 2020 (Audited)	P67,911	P55,592	P123,506	P174,187	P19,284	P176,810	P7,101	P5,663	P93,437	P723,491
Additions	3,287	69	477	72	187	1,026	23	-	11,189	16,330
Disposals/retirement	(3)	(68)	-	(2)	-	(742)	(25)	-	-	(840)
Reclassifications and others	550	1,955	140	5	119	1,108	134	-	(5,577)	(1,566)
Currency translation adjustments	(214)	(211)	42	(641)	(479)	(1,124)	(32)	-	(456)	(3,115)
March 31, 2020 (Unaudited)	71,531	57,337	124,165	173,621	19,111	177,078	7,201	5,663	98,593	734,300
Accumulated Depreciation and Amortization										
January 1, 2020 (Audited)	3,698	20,774	11,679	57,719	12,880	101,756	1,766	4,944	-	215,216
Depreciation and amortization	88	486	1,396	1,151	267	2,242	94	3	-	5,727
Disposals/retirement	(3)	(36)	-	(2)	-	(352)	(25)	-	-	(418)
Reclassifications	5	6	-	-	14	(1,132)	(2)	-	-	(1,109)
Currency translation adjustments	(13)	(115)	17	(474)	(261)	(801)	(11)	-	-	(1,658)
March 31, 2020 (Unaudited)	3,775	21,115	13,092	58,394	12,900	101,713	1,822	4,947	-	217,758
Accumulated Impairment Losses										
January 1, 2020 (Audited)	-	2,714	-	-	-	9,150	24	573	-	12,461
Currency translation adjustments	-	(40)	-	-	-	(87)	(3)	-	-	(130)
March 31, 2020 (Unaudited)	-	2,674	-	-	-	9,063	21	573	-	12,331
Carrying Amount										
March 31, 2020 (Unaudited)	P67,756	P33,548	P111,073	P115,227	P6,211	P66,302	P5,358	P143	P98,593	P504,211

Depreciation and amortization charged to operations amounted to P5,807 and P5,727 for the periods ended March 31, 2021 and 2020, respectively.

Reclassifications and others include transfers to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party and reclassifications from capital projects in progress account to specific property, plant and equipment accounts.

In 2020, property, plant and equipment of the Group's hog farm were reclassified to idle assets due to the impact of the African Swine Fever that resulted in extended downtime of the facility, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position as at March 31, 2021 and December 31, 2020.

7. 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 Parent Company, net of dividends on preferred shares and distributions to holders of convertible perpetual securities (CPS), by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	March 31	
	2021	2020
Net income (loss) attributable to equity holders of the Parent Company	P3,621	(P2,334)
Less distributions to CPS for the period	404	404
Net income (loss) attributable to common shareholders of the Parent Company (a)	P3,217	(P2,738)
Weighted average number of common shares outstanding (in millions) (b)	330	330
Basic and diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	P9.74	(P8.29)

Earnings per share are computed based on amounts in nearest peso.

As at March 31, 2021 and 2020, the Parent Company has no dilutive debt or equity instruments.

8. Dividends

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

2021

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividend per Share</u>
March 11, 2021	March 11, 2021	March 12, 2021	P139.50

2020

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Dividend per Share</u>
March 12, 2020	March 12, 2020	March 13, 2020	P279.00

On May 6, 2021, the BOD of the Parent Company declared cash dividends at P139.50 per preferred share, payable on May 7, 2021 to shareholders owning preferred shares as at May 6, 2021.

9. 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:

- Liquidity Risk
- Credit Risk
- Market Risk (Interest Rate Risk, Foreign Currency Risk and Commodity Price 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 FVPL, financial assets at fair value through other comprehensive income (FVOCI), financial assets at amortized cost, restricted cash, short-term and long-term loans, and derivative instruments. These financial instruments, except financial assets at FVPL and derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Group such as trade and other receivables, noncurrent receivables and deposits, accounts payable and accrued expenses, lease liabilities and other noncurrent liabilities arise directly from and are used to facilitate its daily operations.

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities.

The BOD 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 constituted the Audit and Risk Oversight 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 tax, legal and regulatory requirements; (e) evaluation of management's process to assess and manage the enterprise risk issues; and (f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Securities and Exchange Commission and/or the Philippine Stock Exchange, Inc.

The Audit and Risk Oversight 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. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight 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 and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

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

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

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

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

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

March 31, 2021	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P43,295 3.875% - 12.00%	P74,487 3.2837% - 9.885%	P52,272 3.2837% - 9.885%	P97,640 3.2837% - 9.885%	P36,891 3.2837% - 9.885%	P140,363 3.2837% - 9.885%	P444,948
Foreign currency-denominated (expressed in Philippine peso) Interest rate	27,668 4.7776% - 5.5959%	7,305 4.7776% - 5.5959%	1,114 5.5959%	1,166 5.5959%	1,219 5.5959%	12,736 5.5959%	51,208
Floating Rate							
Philippine peso-denominated Interest rate	1,954 BVAL + margin or BSP overnight rate, whichever is higher	3,038 BVAL + margin or BSP overnight rate, whichever is higher	1,292 BVAL + margin or BSP overnight rate, whichever is higher	559 BVAL + margin or BSP overnight rate, whichever is higher	119 BVAL + margin or BSP overnight rate, whichever is higher	7,613 BVAL + margin or BSP overnight rate, whichever is higher	14,575
Foreign currency-denominated (expressed in Philippine peso) Interest rate	14,633 LIBOR/applicable reference rate + margin	72,724 LIBOR/applicable reference rate + margin	59,845 LIBOR/applicable reference rate + margin	109,640 LIBOR/applicable reference rate + margin	11,432 LIBOR/applicable reference rate + margin	4,192 LIBOR/applicable reference rate + margin	272,466
	P87,550	P157,554	P114,523	P209,005	P49,661	P164,904	P783,197
December 31, 2020	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P47,116 4.0032% - 12.00%	P67,112 4.2105% - 9.885%	P56,017 3.2837% - 9.885%	P91,422 3.2837% - 9.885%	P36,513 3.2837% - 9.885%	P136,808 3.2837% - 9.885%	P434,988
Foreign currency-denominated (expressed in Philippine peso) Interest rate	2,581 4.7776% - 5.5959%	1,878 4.7776% - 5.5959%	31,250 4.7776% - 5.5959%	1,154 5.5959%	1,207 5.5959%	12,603 5.5959%	50,673
Floating Rate							
Philippine peso-denominated Interest rate	2,572 BVAL + margin or BSP overnight rate, whichever is higher	3,876 BVAL + margin or BSP overnight rate, whichever is higher	2,321 BVAL + margin or BSP overnight rate, whichever is higher	1,442 BVAL + margin or BSP overnight rate, whichever is higher	1,618 BVAL + margin or BSP overnight rate, whichever is higher	7,646 BVAL + margin or BSP overnight rate, whichever is higher	19,475
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,131 LIBOR/applicable reference rate + margin	27,072 LIBOR/applicable reference rate + margin	104,333 LIBOR/applicable reference rate + margin	107,902 LIBOR/applicable reference rate + margin	3,488 LIBOR/applicable reference rate + margin	4,148 LIBOR/applicable reference rate + margin	270,074
	P75,400	P99,938	P193,921	P201,920	P42,826	P161,205	P775,210

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P718 and P2,895 for the period ended March 31, 2021 and for the year ended December 31, 2020, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

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

	March 31, 2021		December 31, 2020	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$4,329	P210,115	US\$5,054	P242,692
Trade and other receivables	736	35,681	671	32,211
Prepaid expenses and other current assets	12	590	15	749
Noncurrent receivables	5	207	4	201
	5,082	246,593	5,744	275,853
Liabilities				
Loans payable	305	14,812	291	14,014
Accounts payable and accrued expenses	1,772	93,774	1,955	93,987
Long-term debt (including current maturities)	6,670	323,674	6,679	320,747
Lease liabilities (including current portion)	1,054	51,171	1,131	54,306
Other noncurrent liabilities	496	24,060	479	23,023
	10,297	507,491	10,535	506,077
Net foreign currency-denominated monetary liabilities	(US\$5,215)	(P260,898)	(US\$4,791)	(P230,224)

The Group reported net losses on foreign exchange amounting to P933 and P417 for the periods ended March 31, 2021 and 2020 respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). 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
March 31, 2021	48.53
December 31, 2020	48.02
March 31, 2020	50.68
December 31, 2019	50.64

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

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

March 31, 2021	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P3,822)	(P3,653)	P3,822	P3,653
Trade and other receivables	(120)	(461)	120	461
Prepaid expenses and other current assets	(7)	(10)	7	10
Noncurrent receivables	-	(5)	-	5
	(3,949)	(4,129)	3,949	4,129
Loans payable	145	269	(145)	(269)
Accounts payable and accrued expenses	725	1,292	(725)	(1,292)
Long-term debt (including current maturities)	5,892	5,364	(5,892)	(5,364)
Lease liabilities (including current portion)	1,029	797	(1,029)	(797)
Other noncurrent liabilities	470	386	(470)	(386)
	8,261	8,108	(8,261)	(8,108)
	P4,312	P3,979	(P4,312)	(P3,979)

December 31, 2020	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
Cash and cash equivalents	(P4,619)	(P3,666)	P4,619	P3,666
Trade and other receivables	(113)	(407)	113	407
Prepaid expenses and other current assets	(5)	(14)	5	14
Noncurrent receivables	-	(4)	-	4
	(4,737)	(4,091)	4,737	4,091
Loans payable	145	248	(145)	(248)
Accounts payable and accrued expenses	1,004	1,481	(1,004)	(1,481)
Long-term debt (including current maturities)	5,902	4,908	(5,902)	(4,908)
Lease liabilities (including current portion)	1,095	804	(1,095)	(804)
Other noncurrent liabilities	455	371	(455)	(371)
	8,601	7,812	(8,601)	(7,812)
	P3,864	P3,721	(P3,864)	(P3,721)

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

Commodity Price Risk

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

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

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

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

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

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.

March 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	P337,073	P337,073	P337,073	P -	P -	P -
Trade and other receivables - net	115,706	115,706	115,706	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	862	862	818	44	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	282	282	282	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,934	5,936	82	46	-	5,808
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	270	112	96	62	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	25,464	25,482	-	311	24,647	524
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	8,949	8,949	4,081	3,525	-	1,343
Financial Liabilities						
Loans payable	146,768	147,084	147,084	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	161,518	161,830	161,830	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,648	2,648	1,052	133	1,463	-
Long-term debt (including current maturities)	774,859	912,970	120,349	185,235	423,665	183,721
Lease liabilities (including current portion)	116,197	138,082	32,229	25,156	46,355	34,342
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, asset retirement obligation (ARO), mine rehabilitation obligation (MRO), deferred income and other noncurrent non-financial liabilities)	28,556	28,562	-	16,619	10,996	947

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	P347,962	P347,962	P347,962	P -	P -	P -
Trade and other receivables - net	120,965	120,965	120,965	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	635	635	596	20	19	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	275	275	275	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,915	5,918	82	46	1	5,789
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	270	112	96	62	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,058	25,082	-	333	24,237	512
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	7,980	7,980	3,111	3,577	-	1,292
Financial Liabilities						
Loans payable	149,475	149,779	149,779	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	161,074	161,383	161,383	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,898	3,898	1,731	201	1,966	-
Long-term debt (including current maturities)	766,762	909,824	109,456	129,043	489,632	181,693
Lease liabilities (including current portion)	122,187	145,425	31,994	27,237	49,652	36,542
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	28,291	28,309	-	16,787	10,582	940

Credit Risk

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade and other receivables 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 the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, 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 basis.

Investment in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality

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

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

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

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

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

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

	March 31, 2021	December 31, 2020
Cash and cash equivalents (excluding cash on hand)	P336,208	P346,178
Trade and other receivables - net	115,706	120,965
Derivative assets	862	635
Investment in debt instruments at FVOCI	126	126
Investment in debt instruments at amortized cost	255	255
Noncurrent receivables and deposits - net	25,464	25,058
Restricted cash	8,949	7,980
	P487,570	P501,197

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

March 31, 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)	P336,208	P -	P -	P -	P -	P336,208
Trade and other receivables	115,706	-	13,688	-	-	129,394
Derivative assets	-	-	-	830	32	862
Investment in debt instruments at FVOCI	-	-	-	-	126	126
Investment in debt instruments at amortized cost	105	150	-	-	-	255
Noncurrent receivables and deposits	-	25,464	600	-	-	26,064
Restricted cash	4,081	4,868	-	-	-	8,949

December 31, 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)	P346,178	P -	P -	P -	P -	P346,178
Trade and other receivables	120,965	-	13,768	-	-	134,733
Derivative assets	-	-	-	604	31	635
Investment in debt instruments at FVOCI	-	-	-	-	126	126
Investment in debt instruments at amortized cost	105	150	-	-	-	255
Noncurrent receivables and deposits	-	25,058	606	-	-	25,664
Restricted cash	3,111	4,869	-	-	-	7,980

The aging of receivables is as follows:

March 31, 2021	Amounts Owed by Related Parties			Total
	Trade	Non-trade	Parties	
Current	P46,348	P24,912	P9,730	P80,990
Past due:				
1 - 30 days	4,711	447	24	5,182
31 - 60 days	1,761	707	10	2,478
61 - 90 days	1,119	500	142	1,761
Over 90 days	15,025	22,938	1,020	38,983
	P68,964	P49,504	P10,926	P129,394

December 31, 2020	Amounts Owed by Related			Total
	Trade	Non-trade	Parties	
Current	P45,989	P23,486	P9,631	P79,106
Past due:				
1 - 30 days	8,894	3,608	276	12,778
31 - 60 days	2,736	316	60	3,112
61 - 90 days	1,363	335	11	1,709
Over 90 days	15,718	21,230	1,080	38,028
	P74,700	P48,975	P11,058	P134,733

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

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

The Group's cash and cash equivalents, derivative assets, investment in debt instruments at FVOCI, investment in debt instruments at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

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

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

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

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

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

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

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

The Group, except for BOC which is subject to certain capitalization requirements by the Bangko Sentral ng Pilipinas, is not subject to externally imposed capital requirements.

10. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

The Group considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of

contractual cash flows such that it would not meet this condition. The Group considers the following in making the assessment:

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

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

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

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

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

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

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category.

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.

Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment on investment in debt instruments are recognized in the consolidated statements of income. When investment in debt instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are transferred to and recognized in the consolidated statements of income.

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

The Group's investments in equity and debt instruments at FVOCI are classified under this category.

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

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

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the consolidated statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the consolidated statements of income. Fair value changes from derivatives accounted for as part of an effective cash flow hedge are recognized in other comprehensive income. Any interest earned from investment in debt instrument designated as at FVPL is recognized in the consolidated statements of income. Any dividend income from investment in equity instrument is recognized in the consolidated statements of income when the right to receive payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment.

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

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

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

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

The Group’s derivative liabilities that are not designated as cash flow hedge are classified under this category.

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

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

The Group’s liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for ECL on financial assets at amortized cost and investments in debt instruments at FVOCI.

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

Offsetting Financial Instruments

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

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

	March 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P337,073	P337,073	P347,962	P347,962
Trade and other receivables - net	115,706	115,706	120,965	120,965
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	862	862	635	635
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	282	282	275	275
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	5,934	5,934	5,915	5,915
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	255	255	255	255
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	25,464	25,464	25,058	25,058
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	8,949	8,949	7,980	7,980
Financial Liabilities				
Loans payable	146,768	146,768	149,475	149,475
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	161,518	161,518	161,074	161,074
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,648	2,648	3,898	3,898
Long-term debt (including current maturities)	774,859	830,516	766,762	843,008
Lease liabilities (including current portion)	116,197	116,197	122,187	122,187
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities)	28,556	28,556	28,291	28,291

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, Noncurrent Receivables and Deposits and Restricted Cash. The carrying amount of cash and cash equivalents, and trade and other receivables approximates fair value primarily due to the relatively short-term maturities of these financial instruments. In the case of noncurrent receivables and deposits and restricted cash, 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. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

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

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1% to 4% and 0.9% to 3% as at March 31, 2021 and December 31, 2020, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 2% and 0.1% to 0.9% as at March 31, 2021 and December 31, 2020, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedge Accounting

The Group uses derivative financial instruments, such as forwards, swaps and options to manage its exposure on foreign currency, interest rate and commodity price risks. Derivative financial instruments are initially recognized at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives that are not designated as hedging instruments are recognized in the consolidated statements of income.

Freestanding Derivatives

The Group designates certain derivatives as hedging instruments to hedge the exposure to variability in cash flows associated with recognized liabilities arising from changes in foreign exchange rates and interest rates.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedging instrument are expected to offset the changes in cash flows of the hedged item.

Cash Flow Hedge. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the "Hedging reserve" account in the consolidated statements of changes in equity. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the consolidated statements of income.

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the time value of options, the forward element

of forward contracts and the foreign currency basis spread of financial instruments are separately accounted for as cost of hedging and recognized in other comprehensive income. The cost of hedging is removed from other comprehensive income and recognized in the consolidated statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the consolidated statements of income if the hedge is transaction related.

When the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is transferred and included in the initial cost of the hedged asset or liability. For all other hedged transactions, the amount accumulated in equity is reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the consolidated statements of income.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires, is sold, is terminated or is exercised, hedge accounting is discontinued prospectively. The amount that has been accumulated in equity is: (a) retained until it is included in the cost of non-financial item on initial recognition, for a hedge of a transaction resulting in the recognition of a non-financial item; or (b) reclassified to the consolidated statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the consolidated statements of income, for other cash flow hedges. If the hedged future cash flows are no longer expected to occur, the amounts that have been accumulated in equity are immediately reclassified to the consolidated statements of income.

Embedded Derivatives

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

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

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

March 31, 2021	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$40	US\$100	US\$ -	US\$140
Average strike rate	P51.96 to P54.35	P51.96 to P56.15	-	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$30	US\$280	US\$330
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	3.60% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

December 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$90	US\$50	US\$60	US\$200
Average strike rate	P52.41 to P56.15	P52.41 to P55.02	P52.95 to P56.15	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$20	US\$30	US\$280	US\$330
Average strike rate	P47.00 to P57.00	P47.00 to P56.83	P47.00 to P56.50	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	3.60% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$15	US\$30	US\$45	US\$90
Interest rate	0.44% to 1.99%	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

March 31, 2021	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P47	P -	(P47)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	220	(1,205)	887
Interest rate risk:			
US dollar-denominated borrowings	21	(16)	-

December 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P85	P -	(P87)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,968	(1,251)	657
Interest rate risk:			
US dollar-denominated borrowings	28	(20)	-

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

March 31, 2021	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$140	P40	P59	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P47)	P22	(P7)	P29	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risks: Cross currency swap	330	-	1,769	Accounts payable and accrued expenses and Other noncurrent liabilities	(220)	192	(36)	48	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	90	-	21	Accounts payable and accrued expenses and Other noncurrent liabilities	(21)	(4)	-	4	Interest expense and other financing charges
December 31, 2020	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$200	P30	P96	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P85)	(P80)	P27	P214	Interest expense and other financing charges and Other income - net
Foreign currency and interest rate risks: Cross currency swap	330	-	2,343	Accounts payable and accrued expenses and Other noncurrent liabilities	(1,968)	24	1,257	200	Interest expense and other financing charges and Other income - net
Interest rate risk: Interest rate collar	90	-	28	Accounts payable and accrued expenses and Other noncurrent liabilities	(28)	(8)	-	9	Interest expense and other financing charges

No ineffectiveness was recognized in the 2021 and 2020 consolidated statements of income.

The table below provides a reconciliation by risk category of components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	March 31, 2021		December 31, 2020	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P1,271)	P570	(P1,004)	P321
Changes in fair value:				
Foreign currency risk	7	22	(28)	(80)
Foreign currency risk and interest rate risks	204	192	(1,603)	24
Interest rate risk	7	(4)	(35)	(8)
Amount reclassified to profit or loss	(43)	81	1,284	423
Tax effect	(125)	(21)	115	(110)
Ending balance	(P1,221)	P840	(P1,271)	P570

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Interest Rate Swap

As at March 31, 2021 and December 31, 2020, the Group has no outstanding interest rate swap.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$434 and US\$440 as at March 31, 2021 and December 31, 2020, respectively, and with various maturities in 2021. The positive (negative) fair value of these currency forwards amounted to P56 and (P58) as at March 31, 2021 and December 31, 2020, respectively.

Currency Options

The Group has outstanding currency options with an aggregate notional amount of US\$700 and US\$925 as at March 31, 2021 and December 31, 2020, respectively, and with various maturities in 2021. The net negative fair value of these currency options amounted to P285 and P523 as at March 31, 2021 and December 31, 2020, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its fuel oil requirements, with various maturities in 2021. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index.

The notional quantity of fuel oil were 32.1 million barrels and 32.8 million barrels as at March 31, 2021 and December 31, 2020, respectively. The net positive (negative) fair value of these swaps amounted to P259 and (P724) as at March 31, 2021 and December 31, 2020, respectively.

As at March 31, 2021 and December 31, 2020, the Group has no outstanding commodity swaps on the purchase of coal and aluminum.

Commodity Options

As at March 31, 2021 and December 31, 2020, the Group has no outstanding three-way options entered as hedge of forecasted purchases of crude oil.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$238 and US\$173 as at March 31, 2021 and December 31, 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 positive (negative) fair value of these embedded currency forwards amounted to (P7) and P479 as at March 31, 2021 and December 31, 2020, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P3,896), P2,150 and (P5,007) for the periods ended March 31, 2021 and 2020, and December 31, 2020, respectively (Note 4).

Fair Value Changes on Derivatives

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

	March 31, 2021	December 31, 2020
Balance at beginning of year	(P3,263)	(P1,964)
Net change in fair value of derivatives:		
Designated as accounting hedge	428	(1,730)
Not designated as accounting hedge	(3,878)	(4,841)
Acquisition of a subsidiary	-	260
	(6,713)	(8,275)
Less fair value of settled instruments	(4,927)	(5,012)
Balance at end of period	(P1,786)	(P3,263)

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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.

The table below analyzes financial instruments carried at fair value by valuation method:

	March 31, 2021			December 31, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P862	P862	P -	P635	P635
Financial assets at FVPL	-	282	282	-	275	275
Financial assets at FVOCI	446	5,488	5,934	427	5,488	5,915
Financial Liabilities						
Derivative liabilities	-	2,648	2,648	-	3,898	3,898

The Group has no financial instruments valued based on Level 3 as at March 31, 2021 and December 31, 2020. For the period ended March 31, 2021 and for the year ended December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

11. Subsequent Event

Issuance of US\$550 SPCS by Petron Corporation (Petron)

On April 19, 2021, Petron issued US\$550 SPCS at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed in the Singapore Exchange Securities Trading Limited on April 20, 2021. The net proceeds will be applied for the repayment of indebtedness and for general corporate purposes.

12. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 43 (a) of the 2020 Audited Consolidated Financial Statements, that remain outstanding as at March 31, 2021. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.
- f. Except for the Prepared and Packaged Food, and Protein businesses of San Miguel Food and Beverage, Inc., which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period ended March 31, 2021.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at end of March 31, 2021. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to

be used for these projects will come from available cash, short and long-term loans.

- i. The effect of COVID-19 in the performance of the Group for the first quarter of 2021 is discussed in the Management's Discussion and Analysis of Financial Position and Financial Performance.

TOP FRONTIER INVESTMENT HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that Top Frontier Investment Holdings, Inc. and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2021 and December 31, 2020 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2021 and 2020 for operating efficiency ratios.

	March 2021	December 2020
<u>Liquidity:</u>		
Current Ratio	1.44	1.52
Quick Ratio	1.01	1.06
<u>Solvency:</u>		
Debt to Equity Ratio	1.97	1.95
Asset to Equity Ratio	2.97	2.95
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	3.57%	(0.14%)
Interest Rate Coverage Ratio	2.61	1.78
Return on Assets	1.95%	1.19%
	<u>Period Ended March 31</u>	
	2021	2020
<u>Operating Efficiency:</u>		
Volume Decline	(7%)	(9%)
Revenue Decline	(6%)	(15%)
Operating Margin	16%	5%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$

KPI	Formula
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right)^{-1}$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right)^{-1}$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting



MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of Top Frontier Investment Holdings, Inc. ("Top Frontier" or the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2020. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as at December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020. All necessary adjustments to present fairly the Group's consolidated financial position as at December 31, 2020 and the financial performance and cash flows for the year ended December 31, 2020 and for all the other periods presented, have been made.

The financial information appearing in this report is presented in Philippine Peso, which is the functional currency of the Parent Company. All financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

I. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2020	2019	2018
		<i>(In Millions)</i>	
Sales	P725,776	P1,020,480	P1,024,915
Cost of Sales	577,495	819,855	827,343
Gross Profit	148,281	200,625	197,572
Selling and Administrative Expenses	(78,405)	(86,523)	(82,908)
Operating Income	69,876	114,102	114,664
Financing Charges - net	(44,507)	(43,042)	(35,555)
Equity in Net Earnings (Losses) of Associates and Joint Ventures	424	106	(289)
Gain (Loss) on Sale of Investments and Property and Equipment	(491)	(237)	252
Other Income (Charges) - net	14,153	6,551	(9,497)
Net Income	23,622	48,571	44,860
Net Income Attributable to Equity Holders of the Parent Company	(233)	9,604	7,000
Net Income Attributable to Non-controlling interests	23,855	38,967	37,860

2020 vs. 2019

For 2020, sales and margin improvements in the second half reduced overall decline with the Group's consolidated sales and operating income reaching P725,776 million and P69,876 million, 29% and 39% lower from the previous year, respectively. The decline in revenue was mainly caused by lower sales volume of Petron Corporation (Petron) and the Beer and Non-Alcoholic Beverages (NAB) division under the Food and Beverage business. This was due to lockdown and strict quarantine restrictions implemented by the government in the early part of the year coupled with lower selling price per liter of Petron as a result of the volatility of global crude oil prices. Sales of the Energy business also declined due to the deferment of the power supply agreements with Manila Electric Company (Meralco) and lower contract rates under the new power supply agreements that took effect on December 26, 2019 compared to the previous agreements. The Infrastructure business likewise registered a decline in sales which was mainly brought about by the decline in average daily traffic volume in all the operating toll roads which have been weighed down by the different levels of travel restrictions during the year.

Cost of sales was lower by 30% to P577,495 million mainly due to the: (a) decrease in sales volume and lower cost per liter of Petron, (b) lower power purchases, decline in net generation cost due to lower average cost of coal and natural gas prices, and lower energy fees due to the decline in net generation of the Sual, Ilijan and San Roque Power Plants, and (c) lower sales volume from Beer and NAB and Food divisions, under the Food and Beverage business. This was partly offset by the increase in sales volume of the Spirits division.

The decrease in selling and administrative expenses by 9% to P78,405 million was mainly due to lower advertising and promotion, and freight, trucking and handling expenses primarily from the Beer and NAB and Food divisions, under the Food and Beverage business, and reduction in outsourced services of Petron due to the pandemic. Advertising campaigns and promotions were suspended and reduced, respectively, due to COVID-19 restrictions while the decline in freight, trucking and handling was brought about by lower sales volume.

The decrease in interest expense and other financing charges was mainly due to the: (a) lower average interest rate of Petron and (b) lower interest expense of the Energy business from the declining principal balance of its finance lease liabilities.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and cash equivalents.

The increase in equity in net earnings was mainly due to the higher share in net income of Manila North Harbour Port, Inc. (MNHPI).

The higher loss on sale of property and equipment pertains to the retirement of the fixed assets of San Miguel Yamamura Packaging Corporation (SMYPC) Manila Plastics Plant which were damaged by the fire incident in Pandacan, Manila in February 2020.

The increase in other income - net was mainly due to the: (a) settlement received by the Energy business from third party contractors on account of damages arising from the latter's nonfulfillment of obligations under procurement-related contracts and (b) income recognized by SMC from the Tax Credit Certificates (TCC) issued by the Bureau of Internal Revenue (BIR) in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light.

The lower income tax expense was primarily due to the: (a) tax benefit by Petron from the loss before tax in 2020 compared to tax expense on the income before tax last year, (b) lower taxable income of the Beer and NAB division under the Food and Beverage business and Infrastructure

business, and (c) derecognition by SMC of deferred income tax asset on the Net Operating Loss Carry-Over (NOLCO) which expired in 2019.

Consolidated net income for the full year of 2020 amounted to P23,622 million, 51% lower than the same period in the previous year. Consolidated net income in the second half amounted to P27,634 million, 25% higher than same period last year, reversing the first half net loss of P4,012 million, which was due largely to the economy's contraction and quarantine restrictions. The improvement of the performance in the second half was mainly brought about by the sustained performance recoveries from all major businesses, combined with effective cost saving initiatives implemented throughout the Group.

The share of non-controlling interests on the Group's net income decreased in 2020 mainly due to the net loss of Petron in 2020 as compared to a net income in 2019 and lower net income of the Beer and NAB division under the Food and Beverage business and Atlantic Aurum Investments B.V. The decrease was offset by higher amount of distribution on SMC Global Power Holdings Corp.'s (SMC Global) Undated Subordinated Capital Securities (USCS) and Senior Perpetual Capital Securities (SPCS).

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc. (SMFB) registered consolidated sales of P279,290 million for the full year, 10% lower than in 2019. Its strong rebound in the second half narrowed its 19% decline in the first half, as a result of continuous volume improvements from its Beer and NAB division, the all-time high performance of its Spirits division, and steady growth of the Prepared and Packaged Food segment of the Food division. This was, however, slightly tempered by lower volumes from the Food division's Protein and Animal Nutrition and Health segments.

SMFB's consolidated operating income ended at P33,412 million, a 30% decline, while net income closed at P22,401 million, down 31% from last year.

a. Beer and NAB Division

San Miguel Brewery Inc. (SMB) recorded consolidated sales of P107,928 million in 2020, 24% lower than in 2019. The decline was a direct effect of the Enhanced Community Quarantine (ECQ) restrictions throughout the country, as well as its regional markets. SMB saw significant sales recovery in the second half of the year, posting a 52% sales improvement over the first half, delivering volumes of 202 million cases.

Operating income amounted to P24,467 million, down 37%, and net income stood at P17,455 million.

Domestic Operations

Domestic operations recorded robust volume growth in the first two months of the year, but quarantine lockdowns resulted to the closure of all on- and off- premise outlets, limited transport activities, and the banning of the sale of liquor products in many markets. All these took a toll on beer sales, particularly in the second quarter.

The easing of restrictions paved the way for the gradual, partial re-opening of the economy. As a result, performance began to pick-up in mid-May, with significant volume recovery in June, and sustained month-on-month sales improvements until year-end. Sales for the year amounted to P97,828 million, buoyed by the price increase implemented on

March 1, 2020, but remained 24% lower versus 2019. Combined with cost containment efforts, operating income ended at P23,259 million.

SMB boosted its presence in digital, e-premise, and other appropriate channels for sustained brand equity. It also tapped opportunities for selling especially in emerging and relevant channels, to mitigate the impact of the pandemic and adapt to the new normal. SMB also put in place programs to further support the shift from on-premise to home consumption. Effective cost management, rationalized spending, tighter business controls, and other cost saving initiatives were also implemented, helping sustain the domestic operations' positive profit level.

To support recovery, SMB strengthened its marketing campaigns with TV and radio placements namely, the "*Inom Sweet Home 5+1*" promo and "*Pass the Bottle*" with the San Miguel Beermen. Digital brand campaigns were also rolled out to supplement traditional media. For the first time, the yearly SMB *Oktoberfest* event was held virtually over Facebook.

International Operations

International operations were also affected by the pandemic, as governments in countries where there are operations implemented their own containment measures. This resulted to the temporary closure of manufacturing plants, as well as the closure of on-premise outlets, which resulted to a decline in consumption. The operations in Indonesia and Thailand were particularly affected, as on-premise consumption in these markets are relatively high.

Meanwhile, the Hong Kong, South China, and Vietnam markets were less affected, as evidenced by significantly improved profits compared to the previous year. The Exports business also recorded consistent improvements, brought about by the continuous growth of off-trade channels and brand focused distribution.

SMB International continues to implement its marketing programs, volume incentive initiatives, and market penetration and distribution activities, to sustain and improve volumes and profitability.

b. Spirits Division

Ginebra San Miguel Inc. (GSMI) started 2020 with healthy volume growth in the first two months of the year. Volumes shrank during the ECQ, but quickly recovered after. Trade replenishments boosted sales, leading to June volumes reaching the highest monthly levels on record.

Coming from a volume decline in the first half, GSMI's sustained, strong month-on-month volume rebound resulted to full-year volumes of 38.6 million cases, up 8% from 2019. This is attributable to the expansion of distribution reach, continued efforts to maintain brand relevance, prompt replenishment of stocks in outlets, utilization of e-commerce channels via the San Miguel online store "The Mall", and promotion through the online *Ginumanfest* live concert.

In July, GSMI resumed its "*Lakas sa Magandang Bukas*" and "*I Choose Mojito*" marketing campaigns on radio and television, as the economy reopened.

GSMI launched a new thematic campaign in September, "*One Ginebra Nation 2.0*", sending out a message of hope, resiliency and unity, attuned to the call of this ongoing challenges which further helped bump up volumes. This was supported by localized

consumer promos and the expansion of distribution coverage. Another campaign, “*GSM Blue I Choose Mojito 2.0*”, also contributed to volume increase.

Consolidated sales for the full year reached P36,202 million, up 25% from the previous year’s P29,063 million.

With better operational efficiencies and effective alcohol sourcing, operating income amounted to P3,806 million, up 32% versus 2019. Net income hit P2,757 million, 65% higher from 2019 - the highest ever recorded by GSMI.

c. Food Division

The Food division’s consolidated sales declined by 3% to P135,170 million, from the previous year, reflecting the full impact of ECQ in its basic food segments which was partly moderated by the solid performance of the Prepared and Packaged Food segment as packaged food became an essential item in consumers’ grocery baskets as they settled into their home-based- work-from-home and online classes lifestyle.

Sales in the first three quarters followed a downward trend but slowly returned to growth as quarantine restrictions were eased in September. While institutional sales remained weak due to limited dine-in activities of food service, incremental sales from alternative trade channels partly offset this and the usual demand surge from Christmas spending boosted revenues in the fourth quarter.

Operating income dropped by 17% to P5,185 million in 2020 primarily due to the impact of the pandemic on revenues and operating expenses.

- The Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, was most affected by the pandemic as revenues declined by 10%. Many of the foodservice customers, including fast food chains and “*lechon manok*” outlets, were forced to close shop during the ECQ. This resulted in a massive build-up of frozen chicken inventory in the second quarter, which pushed down prices. In response, aggressive move-out plans were implemented, such as developing alternative trade channels, notably community resellers, to push volumes and help bring down inventory. Poultry volumes in the fourth quarter posted double-digit growth quarter-on-quarter, buoyed by a moderate uptick during the holiday season and incremental sales from alternative channels, particularly community resellers which accounted for 11% of total volumes in 2020. From 192 community resellers in March, it expanded to over 13,000 by end-December and this is still expanding. Chicken prices likewise improved since October and reached around P125/kilo in December. Meanwhile, the Monterey Meats business experienced lower revenues brought about by the restrictions on the movement of pork imposed by some local governments to combat African Swine Fever.
- Animal Nutrition and Health segment revenues registered a slight decrease of 2% due to the continuing effects of the African Swine Fever which affected hog feeds sales. Proving to be a reliable supplier during the ECQ and able to implement more competitive selling prices has allowed the business to grab market share. Volumes ended slightly higher than the previous year, registering robust growth in free range fowl, duck and aquatic feeds, as customers opted for superior product quality produced in the new feed mills.
- Prepared and Packaged Food segment, composed of the processed meats, dairy, spreads, ice cream, biscuits and coffee businesses, posted 10% revenue growth as

restricted living led to more in-home cooking and consumption. This pushed demand for breakfast items and benefitted the premium processed meats, margarine, cheese, and pancake mixes which all registered double-digit growth rates. Our flagship product, *Purefoods Tender Juicy* Hotdog, saw volumes grow across all retail channels with our chicken variant - *Tender Juicy Chicken* Hotdog - registering the highest growth at 98% during the pandemic. *Purefoods* Hams and *Magnolia* Cheeseballs performed strongly in December as special Christmas bundles were created so that more families could celebrate despite tight budgets.

Changes in consumer behavior and increased demand for in-home food driven by lockdown restrictions, gave us opportunity to push our new products such as our ready-to-cook *Magnolia* Fried Chicken, our newly-launched plant-based food products under the *Veega* brand, the *Purefoods* seafood line, and the *Purefoods* Heat and Eat slow-cooked viands. New product launches also included ready-to-eat viands under the *Cook Express* and *Chef's Selections* brands targeted at foodservice outlets and home-based businesses.

- Revenues of the Flour segment were down by 2% mainly from a slowdown in volumes from institutional customers as well as lower selling prices. Price rollbacks were made for hard flour due to aggressive competition in the industry. However, the retail sector continued to grow on the strength of increased demand for our Bake Best flour premixes and baking ingredients arising from heightened consumer interest in home baking.

2. PACKAGING

The Packaging business registered P31,504 million in sales for 2020, down 17% from the previous year, similarly reflecting the effects of the ECQ. Volumes were dragged down by lower orders from its major beverage customers. This was partly offset by increased deliveries to healthcare and pharmaceutical customers, growth in sales from the food and liquor sectors, mainly for home consumption due to the gradual re-opening of the economy and improvements in the export market. On the other hand, the performance of Australia, Malaysia, and China operations remained stable.

With effective cost management initiatives, the Packaging business generated operating income of P961 million.

3. ENERGY

SMC Global registered full year sales of P115,029 million, 15% lower versus 2019, as off-take volumes of 26,116 gigawatt hours (GWh) declined by 7%. This was primarily due to the deferment of commencement of the 290 megawatts (MW) mid-merit power supply agreement with Meralco, where the provisional approval of the Energy Regulatory Commission (ERC) was posted and distributed to the parties only on March 16, 2020 and the deferment of the 260 MW extended contract with Masinloc, which remains pending ERC approval to-date.

In addition, the new Meralco baseload power supply agreements that took effect on December 26, 2019 have lower contract rates compared to the previous power supply agreements.

Sales volumes were affected by a decline in demand from industrial and contestable customers during the lockdown period, which gradually improved with the reopening of economic activities after the easing of the ECQ restrictions. This was, however, mitigated by improved utility demand as household consumption increased.

With lower fuel costs and spot purchases and effective implementation of power dispatch strategies, operating income ended 3% higher at P36,923 million. Net income, on the other hand, amounted to P18,874 million, 31% higher than last year.

SMC Global also increased its total capacity during the year. On September 26, 2020, it officially started commercial operations of its Masinloc Unit 3, with 335 MW capacity. On December 15, 2020, it achieved substantial completion, which included the testing and commissioning by the National Grid Corporation of the Philippines, of its 20 MWh Battery Energy Storage (BESS) facility in Kabankalan, Negros Occidental.

With this, SMC Global's total capacity reached 4,697 MW as of December 31, 2020, accounting for 20% of the National Grid, 27% of the Luzon Grid, and 8% of the Mindanao Grid.

It has also started to undertake the expansion of its portfolio of BESS projects that will provide an additional 1,000 MWh. The initial 490 MWh across 15 sites are in advanced stages of completion and are expected to start operating in early 2021. The remaining 510 MWh across other sites are expected to be completed by the early part of 2022.

4. FUEL AND OIL

Petron face significant challenges throughout the year. Global oil prices, which had already been volatile, plunged in March as a price war broke among the top oil producing countries. Dubai crude collapsed by around 33%, from an average of \$63.5 per barrel in 2019 to \$42 per barrel in 2020, resulting to successive rollbacks in pump prices.

Oil prices fell to as low as US\$13/bbl in daily trading, reaching record low levels in 26 years. Refining margins also remained weak in the region as oil consumption declined. Demand for fuel also fell as transportation and mobility were severely restricted throughout the ECQ period.

Petron posted successive recoveries in the last two quarters of the year, resulting in net profit of P2,823 million in the second half, as world crude prices stabilized and rallied towards year-end, bringing subsequent inventory gains. Consolidated volumes also improved, from the second quarter slump. Still, these were not enough to compensate for losses incurred in the first half, which resulted from demand contraction in both domestic and international markets, poor refining margins, and the collapse in world oil prices.

As a result, Petron's consolidated sales amounted to P286,033 million, down 44% from the previous year. Volumes were likewise down 27% to 78.6 million barrels. Petron recorded consolidated operating loss of P4,629 million and net loss of P11,413 million in 2020.

Petron continues to implement measure to maximize productivity and reduce expenses in order to cope with the pandemic's impacts. Cash preservation initiatives are in place, as Petron continues to find new ways to adapt, given that the economy's recovery may take longer than initially expected.

5. INFRASTRUCTURE

The Infrastructure business recorded a 33% volume drop for 2020, reflecting the effect of travel restrictions throughout Luzon. Despite this, the business continued to waive toll fees to help to medical front liners. Following the easing of restrictions, a significant recovery in traffic volumes was seen, with some operating toll roads registering daily traffic at almost pre-pandemic levels.

Combined average vehicle daily traffic in the fourth quarter reached 80% of 2019 levels, with notable recoveries from the South Luzon Expressway (SLEX) and Star Tollway.

As a result, full year sales amounted to P14,565 million, 38% lower than the previous year, while operating income ended 78% lower at P2,571 million.

The Infrastructure business, nevertheless, delivered on its commitments and completed two major projects. The entire stretch of the Tarlac-Pangasinan-La Union Expressway (TPLEX) from Tarlac up to Rosario, La Union was completed and opened to the public. The construction of the Skyway Stage 3 project, linking SLEX and North Luzon Expressway (NLEX) was also completed. Skyway Stage 3 was soft-opened December 29, 2020, and was inaugurated and opened to motorists on January 14, 2021.

The Metro Rail Transit (MRT 7) project is progressing well, with construction returning to normal levels. Work on sections from Quezon Memorial Circle to Quirino Highway traversing Commonwealth Avenue and Regalado Avenue is ongoing.

Construction of the SLEX Toll Road 4 (SLEX TR4) project, which will extend SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province is ongoing along the Alaminos-Tiaong area. Coordination with the DPWH is also ongoing to expedite the acquisition of right-of-way.

Meanwhile, the Alabang South Skyway Extension project is in an advanced stage of completion. The construction on Skyway Stage 4 has also started at workable areas along C-5. Acquisition of right-of-way properties is ongoing. The Toll Regulatory Board has given the Group permission to proceed with detailed engineering design on realignments.

Stages 1 and 2 of the Bulacan Bulk Water Treatment facilities are now complete. Feasibility study of Stage 3 has also been completed, while work on the preliminary engineering design is ongoing.

2019 vs. 2018

The Group's consolidated sales for the year 2019 amounted to P1,020,480 million, at par versus 2018. Higher volumes from the Energy and Food and Beverage businesses continue to drive revenue growth, but was moderated by the decline in the sales performance of Petron.

Cost of sales amounted to P819,855 million, slightly lower than 2018 at P827,343 million. The decrease primarily was the result of lower average crude prices and sales volume of Petron. This was reduced by the increase in: (a) full year operations of Masinloc Power Plant Units 1 and 2, Malita Power Plant Unit 2, and Limay Power Plant Unit 3, alongside Limay Power Plant Unit 4 which started operations in July 2019, (b) higher power purchase costs of Sual, Ilijan and San Roque Power Plants, (c) higher energy fees of Sual and Ilijan Power Plants, and (d) volume growth of the Food and Beverage business and higher broiler cost, processing cost and major raw materials of the Food division.

Selling and administrative expenses increased by 4% to P86,523 million compared to 2018, mainly due to (a) higher personnel expenses, logistics costs, contracted services costs and marketing expenses of the Food and Beverage business, and (b) higher operating expenses from Masinloc entities' full year operations. The increase was partly offset by lower employee costs, provision for bad debts and advertising expenses of Petron.

The Group's consolidated operating income declined by 0.5% at P114,102 million from 2018, weighed down by Petron and the Food and Beverage business, particularly the Food division. This

was partly offset by Beer and NAB and Spirits divisions, under the Food and Beverage business, and the Energy business which delivered strong results in 2019.

The higher interest expense and other financing charges was mainly due to higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to higher interest rate and average balance of cash and cash equivalents.

The increase in equity in net earnings (losses) of associates and joint ventures mainly represents the share of San Miguel Properties, Inc. (SMPI) on the higher earnings of Bank of Commerce (BOC) and the share of San Miguel Holdings Corp. (SMHC) on the earnings of MNHPI for the period May to December 2019, net of the share in higher net losses of the Group's joint ventures.

The loss on sale of property and equipment in 2019 pertains mainly to the disposal and retirement by SMYPC of its Cebu Beverage Packaging Plant.

Other income - net in 2019 was primarily due to the appreciation of the Philippine Peso by P1.945 versus other charges - net in 2018 where the Philippine Peso depreciated by P2.65. This resulted to a foreign exchange gain of P6,984 million in 2019 compared to a foreign exchange loss of P11,723 million in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses and the temporary differences on foreign exchange translation and capitalized borrowing costs, and (b) higher taxable income of SMB. This was partially offset by lower provision for income tax recognized by Petron, the Food division and San Miguel Energy Corporation (SMEC) due to the decline in taxable income.

Consolidated net income amounted to P48,571 million, at par from 2018.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

SMFB's consolidated sales for 2019 ended at P310,785 million, 9% higher than the P286,378 million reported in 2018, on account of strong volumes from the Beer and NAB and Spirits divisions and better selling prices. Consolidated operating income grew 4% versus 2018 to P47,781 million, mainly driven by the Beer and NAB and Spirits divisions sustained strong performance. This was partly offset by the slowdown in the Food division.

Net income rose 6% over 2018 to P32,279 million.

a. Beer and NAB Division

SMB sustained its volume growth, concluding 2019 with consolidated volumes of 301.6 million cases, up 6% from 2018. Consolidated sales and operating income were both 10% higher at P142,272 million and P38,720 million, respectively. Net income grew 14% to P27,285 million.

Domestic Operations

Domestic operations sold 275.3 million cases, up 7% from 2018. This was mainly the result of engaging brand and trade activations coupled with sustained economic expansion,

low inflation, election-related spending, and better employment conditions. Red Horse and San Miguel Pale Pilsen maintained their position as the top selling beer brands. Both benefitted from nationwide activations and consumer promo events such as “*Pasiklaban*”, “*4Kicks*”, “*Rocker Chicks*” and “*Astig*” for Red Horse and “*Logiclub*” for San Miguel Pale Pilsen, alongside other volume-generating programs.

SMB completed its new beer production facility in Tagoloan, Misamis Oriental in the fourth quarter of 2019.

International Operations

International operations delivered revenue and operating income growth, despite a slight drop in volumes. This was on the back of strong results from Thailand operations and the Exports business, along with significant improvements in Vietnam, South China, and Hong Kong.

Distribution and marketing enhancements and penetration programs were put in place to accelerate volume growth of San Miguel brands - San Miguel Pale Pilsen, Red Horse, San Mig Light, and Cerveza Negra - and local brands. These included geographical expansion and the launch of new products in all countries with operations.

b. Spirits Division

GSMI posted a full-year net income of P1,672 million in 2019, 59% higher than 2018 - the highest income recorded in the last 15 years. Volumes grew 14% from 2018 at 35.9 million cases. Much of this growth is attributed to the success of thematic campaigns, “*Pilipino Ako, Ginebra Ako*” for Ginebra San Miguel and “*I Choose Mojito*” for GSM Blue. Wider sales distribution, trade promotions and various on-ground activities for consumers also helped boost volumes. Vino Kulafu, GSMI’s Chinese wine brand, continued to post strong growth in Visayas and Mindanao regions while Primera Light Brandy also delivered healthy growth.

Before the end of 2019, GSMI launched a new campaign, “*One Ginebra Nation*”, espousing unity among Filipinos which is expected to boost volume growth further for GSMI.

Total sales reached P29,063 million, up 17%. Operating income hit P2,878 million, 57% higher than 2018, as a result of better margins deriving from operational improvements across the supply chain.

c. Food Division

The Food division generated consolidated sales of P139,459 million, 5% higher than 2018, on the back of higher volumes, better selling prices, and an improved product mix across most of business segments.

Net income for the Food division amounted to P3,449 million.

- The Protein segment, composed of Poultry and Fresh Meats, registered a 7% growth in revenues as volumes from chicken stations, *lechon manok* outlets, and major food service chains, increased. The improvement in poultry prices following the re-imposition of special safeguard duties on imported frozen chicken, also helped boost sales. Revenues from fresh meats however declined, due to restrictions imposed by several Local Government Units on pork products, in a bid to curb the spread of African Swine Fever.

- Animal Nutrition and Health segment revenues declined by 2%, following lower commercial volumes due to its portfolio rationalization. Sales of broiler and layer feeds were also lower as commercial raisers held back output, following the glut in chicken prices. This was cushioned by strong hog feeds sales prior to the African Swine Fever outbreak.
- Prepared and Packaged Food segment revenues grew 8% on the back of the strong performance of its core products and favorable selling prices of value-added meats, butter, margarine, dairy spreads, biscuits and coffee. The segment also benefitted from an improved product mix, specifically, a shift to higher-margin products and the conversion of some of pork-based products to chicken-based formulations, as in the case of the newly launched *Purefoods* Fiesta Ham Chicken.
- Flour revenues grew 11%, driven by better selling prices and healthy volume growth resulting from additional capacity from the new flour mill.

The Food division has built four new feed mills. Two facilities are in Luzon, in Bataan and San Ildefonso, and both started commercial operations in 2019. Two other feed mills in Davao and Misamis Oriental are both undergoing commissioning. The Food division has expanded its poultry breeder farm in Bataan and is constructing new poultry processing plant in Quezon and Davao. An additional flour milling facility is being commissioned in Mabini, Batangas and is expected to be operational by early 2020.

2. PACKAGING

The Packaging business' performance remained stable throughout 2019. Sales for 2019 amounted to P37,874 million, a slight increase from 2018. This was largely due to steady demand for the Packaging business' largest segments, Glass, Metal, and Flexibles businesses. The Packaging business' Malaysia operations also performed strongly as did its Logistics Services' operations, following increased demand for trucking services and pallet rentals.

Operating income reached P3,598 million, 9% higher than 2018, driven by Glass and Metal volumes. Packaging saw higher orders from the Beer and Spirits businesses, as well as carbonated soft-drinks customers, supported by programs to improve efficiencies and better management of fixed costs.

3. ENERGY

SMC Global registered consolidated sales of P135,060 million, 12% higher than the P120,103 million reported in 2018. This was on the back of an 18% increase in off-take volumes at 28,112 GWh brought about by the full year operation of Masinloc Power Plant Units 1 and 2, Unit 2 of Malita Power Plant and Unit 3 of the Limay Power Plant. Unit 4 of the Limay Power Plant also provided additional capacity starting July 2019. In addition, the Ilijan Power Plant posted higher revenues from its bilateral and spot sales in 2019.

Consolidated operating income grew 8% at P35,954 million from 2018, while net income surged 73% to P14,364 million in 2019.

4. FUEL AND OIL

Petron faced multiple challenges during 2019, foremost of which were significantly weaker refining margins and volatile global prices due to political tensions in the Middle East and uncertainties in the global economy. The price of Dubai crude declined from an average of US\$69 per barrel in 2018 to US\$63 per barrel in 2019. This was compounded by the shutdown of the Bataan refinery due to an earthquake in April. The effect of the second tranche of the excise tax increase and proliferation of white stations, also had an adverse effect on Petron's overall performance.

As a result, Petron's consolidated sales amounted to P514,362 million, down 8% versus 2018, mainly on account of lower average selling price of fuel, and a slight decline in volumes, which ended at 107 million barrels. Philippine operations volume declined by 5% following the unplanned total plant shutdown which began in April 2019. Petron Malaysia's domestic volumes meanwhile grew by 3%, helping offset the decline in Philippine volumes.

Operating income was also down by 14% at P16,199 million, the result of lower margins of petroleum and petrochemical products due to the combined effects of oversupply, a slowdown in demand, and the temporary cessation of refinery operations. This was partly cushioned by its extensive fixed cost savings initiatives and continued emphasis on operational efficiencies.

Petron's consolidated net income settled at P2,303 million, down by 67% from 2018's P7,069 million.

Despite this setback, Petron continues to expand its service station network to reach even more customers. In 2019, Petron opened 124 new stations, bringing its total to 2,435 service stations in the Philippines and to almost 700 in Malaysia.

5. INFRASTRUCTURE

The Infrastructure business recorded a combined 5% volume growth for the year from all of its operating toll roads. Consolidated sales reached P23,406 million, while operating income amounted to P11,444 million.

Construction of major infrastructure projects remain on going. This, however, was temporarily suspended starting on March 17, 2020 when the ECQ was implemented in Luzon by the Philippine government to control the spread of the COVID-19. Construction activities gradually resumed after the restrictions in construction activities were partially allowed in some area until it was totally lifted on May 15, 2020.

The 89.21-kilometer TPLEX has been operational from Tarlac to Pozzorubio while the last phase from Pozzorubio to Rosario, La Union, is almost complete. This phase was temporarily opened to the public in December 2019 which was closed after the holiday season to give way for its completion.

Construction of the 22-kilometer MRT 7 Project, is likewise progressing well. Work on the section from Quezon Memorial Circle to Quirino Highway traversing Commonwealth Avenue and Regalado Avenue in Quezon City was accelerated to reach the goal of partial operation by 2021.

The Bulacan Bulk Water Supply Project now supplies potable water to 12 out of 24 Bulacan municipalities, including Balagtas, Bocaue, Bulakan, Calumpit, Guiguinto, Malolos City, Marilao, Meycauayan, Obando, Plaridel, San Jose del Monte, and Santa Maria.

The Skyway Stage 3 that will link SLEX to NLEX is in the advanced stages of completion, despite suffering a setback on February 1, 2020 from a fire in Pandacan, Manila. Approximately 300 meters of Section 2B, which was already substantially complete, was affected. Prior to work suspension due to ECQ, SMC Infrastructure had been working 24/7 to reconstruct this section and targeting to complete the Skyway 3 Project by July this year.

SLEX TR4, the 56.862-kilometer extension of the SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province, has started construction. Works from Alaminos, Laguna and Tiaong, Quezon is currently ongoing.

Construction of the new passenger terminal in Boracay Airport has been slowed down to give way for groundwater works and well development. Both projects are partially completed.

Meanwhile, the Concession Agreement for the Manila International Airport was signed last September 18, 2019. A game-changing infrastructure project, its detail technical design and requirements for its financial close is currently on-going.

II. FINANCIAL POSITION

A. The following are the major developments in 2020:

INVESTMENT IN SUBSIDIARIES

Merger of SMYPC with San Miguel Yamamura Asia Corporation (SMYAC)

On October 23 and December 20, 2019, the Plan of Merger and Articles of Merger, respectively, were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC was transferred to and absorbed by SMYPC, the surviving entity.

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and the increase in the authorized capital stock of SMYPC. On the same date, the Certificate of Filing of the Articles and Plan of Merger were issued.

On March 1, 2020, the effective date of the merger, SMYPC issued 3,901,011 and 2,100,544 common shares to SMC and Nihon Yamamura Glass Co., Ltd. (NYG), respectively, for a total amount of P6,002 million as consideration for the net assets of SMYAC pursuant to the terms of the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of SMYPC. With the completion of the merger, SMC and NYG retained their respective ownership in SMYPC of 65% and 35%, respectively.

On July 7, 2020, the application for a tax-free exchange certification/ruling on the merger was filed with the BIR and still pending as at March 11, 2021.

Consolidation of Northern Cement Corporation (NCC)

On June 12, 2020, the Board of Directors (BOD) and stockholders of NCC approved the amendment of the Articles of Incorporation of NCC relating to the reclassification of 194,000,000 common shares to Series "2" Preferred Shares, the option of the stockholders of the common shares to convert to Series "2" Preferred Shares and renaming the existing 3,000,000 preferred shares of NCC to Series "1" Preferred Shares. On August 6, 2020, the SEC approved the amendment of the Articles of Incorporation of NCC to reflect the amendments.

On August 24, 2020, the stockholders of NCC which collectively own 65% of the common shares, exercised the option to convert their common shares to a total of 194,000,000 Series “2” Preferred Shares. SMEII did not exercise its option to convert its common shares to Series “2” Preferred Shares. With the conversion of the common shares, SMEII gained control of NCC, exercising 100% of voting rights.

As a result, SMEII recognized the investment in NCC at fair market value and the net assets of NCC was consolidated to SMEII as at August 24, 2020. The fair valuation of the net assets and investment in NCC resulted to the recognition of a total gain of P1,657 million, included as part of “Other income (charges) - net” account, in the consolidated statements of income.

In 2020, the Group has undertaken various financing activities. The significant transactions are as follows:

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

- **Atlantic Aurum Investments Philippines Corporation (AAIPC)**

On various dates in 2020, AAIPC availed of a total of P11,000 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. The proceeds of the loan are being used mainly to refinance existing debt obligations, invest and/or advance for infrastructure projects, for general corporate requirements and finance transaction related fees, taxes and expenses. The loan is payable in 40 quarterly installments up to December 14, 2029 and subject to fixed interest rate.

- **San Miguel Foods, Inc. (SMFI)**

On various dates in April and May 2020, SMFI drew the remaining P8,000 million from the P18,000 million term loan facility for the purpose of refinancing its existing short-term loan obligations, to fund capital expansion projects and for other general corporate requirements. The loan is subject to a floating interest rate with a one-time option to convert to fixed rate. The loan is payable in ten years, in quarterly installments, which will commence in March 2023. The maturity date of the loan is on December 12, 2029.

- **Petron**

On April 27, 2020, Petron availed of P5,000 million term loan which will be amortized quarterly for five years beginning July 27, 2021 and is subject to fixed interest rate. The maturity date of the loan is on April 27, 2025. The proceeds were used for general corporate purposes.

FOREIGN-CURRENCY DENOMINATED TERM LOANS

- **Petron**

a) On August 26, 2020, Petron availed of US\$150 million three-year long-term debt, subject to floating interest rate, that will mature on August 7, 2023. The proceeds were used to prepay part of US\$1,000 million term loan facility and US\$800 million loan.

b) On April 22, 2020, Petron availed of JPY15,000 million term loan, subject to floating interest rate. Repayment of principal will be made in seven equal semi-annual

amortization beginning March 27, 2022. The maturity date of the loan is on March 27, 2025. The proceeds were used to prepay part of US\$1,000 million term loan facility.

- **MPPCL**

On March 31, 2020, MPPCL drew US\$43 million from the US\$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 MW (Unit 3 of Masinloc Power Plant) coal-fired power plant. The loan is divided into fixed interest tranche and floating interest tranche with maturities up to December 2030.

- **SMC**

On March 19, 2020, SMC drew US\$1,950 million from the remainder of the term loan facility amounting to US\$2,000 million for general corporate purposes. The loan is subject to floating interest rate and will mature on September 27, 2024.

ISSUANCE OF FIXED-RATE PESO-DENOMINATED BONDS AND REDEMPTION OF PREFERRED SHARES BY SMFB

On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 million fixed-rate bonds, consisting of five-year Series A Bonds due in 2025 and seven-year Series B Bonds due in 2027.

SMFB was able to issue P8,000 million and P7,000 million of the Series A and B Bonds, respectively, and these were listed on the Philippine Dealing & Exchange Corp. (PDEX) on March 10, 2020.

The Series A and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds were used to redeem the outstanding perpetual Series “2” Preferred Shares on March 12, 2020 and payment of transaction-related fees, costs and expenses.

REDEMPTION OF FIXED-RATE PESO-DENOMINATED NOTES BY SMC

On May 25, 2020, SMC redeemed the P10,000 million two-year fixed-rate Peso-denominated notes issued on May 25, 2018.

The notes were redeemed from the proceeds of the US\$1,950 million loan drawn in March 2020.

ISSUANCE OF EQUITY AND CAPITAL SECURITIES

Preferred Shares

Issuance of 266,666,667 Series “2-J” Preferred Shares (SMC2J Preferred Shares) and 183,904,900 Series “2-K” Preferred Shares (SMC2K Preferred Shares) by SMC

On October 29 and December 10, 2020, SMC issued and listed on the Philippine Stock Exchange (PSE) 266,666,667 SMC2J Preferred Shares (inclusive of the oversubscription of 133,333,267 shares) and 183,904,900 SMC2K Preferred Shares (inclusive of the oversubscription of 50,571,500 shares) under the 533,333,334 Series “2” Preferred Shares shelf subscription. The shares were issued at an offer price of P75.00 per share for a total

amount of P33,793 million and with dividend rates of 4.75% (for SMC2J Preferred Shares) and 4.50% (for SMC2K Preferred Shares) per annum. The net proceeds from issuance of SMC2J Preferred Shares are being used for the Infrastructure projects, particularly the Manila International Airport and MRT 7, while the net proceeds from the issuance of SMC2K Preferred Shares will be used on investments in BOC and airport and airport related projects and for refinancing of existing obligations.

Capital Securities

Issuance of Redeemable Perpetual Securities (RPS) by SMC

On various dates in June and July 2020, SMC issued a total of P14,810 million RPS at an issue price of 100%, with an initial rate of distribution of 5% per annum.

On September 29 and October 19, 2020, SMC purchased and cancelled a total of P10,810 million RPS, pursuant to the agreement with the holders of the said RPS who accepted the offer by SMC to purchase the RPS. As a result of the purchase, the RPS were cancelled in accordance with the terms and conditions of the purchase agreement between the parties.

The net proceeds were used for general corporate requirements.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears. SMC has the right to defer this distribution under certain conditions.

Issuance of US\$500 Million SPCS by SMC

On July 29, 2020, SMC issued US\$500 million SPCS at an issue price of 100%, with an initial rate of distribution of 5.5% per annum. The securities were issued under SMC's US\$3,000 Million Medium Term Note and Securities Programme. The net proceeds are being used to finance investments and various projects, to refinance existing obligations, and for general corporate purposes.

Issuance of a Total of US\$1,350 Million SPCS by SMC Global

On various dates in 2020, SMC Global issued and listed on the Singapore Exchange Securities Trading Limited (SGX-ST) SPCS for a total amount of US\$1,350 million. These are as follows:

AMOUNT	ISSUANCE/ LISTING DATE	ISSUE PRICE	DISTRIBUTION RATE	USE OF PROCEEDS
US\$600 million	Issued Jan 21, 2020; Listed Jan 22, 2020	100%	5.7%	For the funding requirements of the development and completion of the BESS projects and for general corporate purposes.

Forward

AMOUNT	ISSUANCE/ LISTING DATE	ISSUE PRICE	DISTRIBUTION RATE	USE OF PROCEEDS
US\$400 million ("Original Securities")*	Issued Oct 21, 2020; Listed Oct 22, 2020	100%	7.0%	For capital expenditures and investments in liquefied natural gas facilities and related assets, for the refinancing of expiring commitments whether debt or perpetual securities, and for general corporate purposes.
US\$350 million ("Additional Securities")*	Issued Dec 15, 2020; Listed Dec 16, 2020	102.457%	7.0%	For the repurchase, refinancing and/or redemption of existing USCS, for investments in liquefied natural gas facilities and related assets, or for general corporate purposes.

* The Additional Securities are consolidated into and form a single series with the Original Securities, bringing the total securities to US\$750 million.

REDEMPTION OF PREFERRED SHARES BY SMC

As approved by the BOD on March 12, 2020 and August 6, 2020, SMC redeemed on April 14, 2020 and September 21, 2020 all the outstanding 279,406,667 Series "1" Preferred Shares (SMCP1 Preferred Shares) and 89,333,400 Series "2-D" Preferred Shares (SMC2D Preferred Shares), respectively, at a redemption price of P75.00 per share, plus any accumulated unpaid cash dividends. SMC paid a total of P27,656 million to the holders of SMCP1 Preferred Shares and SMC2D Preferred Shares.

The shares redeemed were not considered retired and may be re-issued by SMC at a price to be determined by the BOD. The listing of the said shares is merely suspended until re-issued by SMC, upon the approval with the Philippine Stock Exchange of the application for lifting of trading suspension in accordance with the listing rules.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the year, the Group paid P34,898 million of maturing obligations funded by cash generated from operations.

Petron, Infrastructure, Energy, SMC, Spirits division under Food and Beverage and other businesses paid a total of P15,555 million, P6,794 million, P6,262 million, P4,148 million, P882 million and P1,257 million, respectively, of their maturing long-term debt.

B. The following are the major developments in 2019:

INVESTMENT IN SUBSIDIARIES

Deconsolidation of MNHPI

The Philippine Competition Commission (PCC) and Philippine Ports Authority approved the transfer of common shares equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI) on March 14 and April 26, 2019, respectively. With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while SMHC's shareholdings in MNHPI remained at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC and was subsequently classified as a joint venture. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as at April 26, 2019, and recognized the investment at fair market value amounting to P2,600 million. The Group recognized a gain amounting to P727 million, included as part of "Other income (charges) - net" account, in the consolidated statements of income.

In December 2019, SMHC acquired for a total of P1,060 million additional 1,950,000 and 50,000 common shares of stock of MNHPI from IZ Investment Holdings, Inc. and Petron, respectively. With the acquisition of the additional shares, SMHC increased its equity interest in MNHPI from 43.33% to 50%.

In 2019, the Group has undertaken various financing activities. The significant transactions are as follows:

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

• **INFRASTRUCTURE**

AAIPC

On December 16, 2019, AAIPC availed a P17,300 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. Proceeds of the loan were mainly used to refinance existing debt obligations, and for the construction of Skyway Stage 3 Project. The loan is payable in 39 quarterly installments up to December 2029 and subject to fixed interest rate.

SMC TPLEX Corporation [formerly Private Infra Dev Corporation (PIDC)]

On December 19, 2019, PIDC drew P12,000 million from its P42,000 million Second Amendment to the Omnibus Loan and Security Agreement dated December 16, 2019 with various local banks. Proceeds of the loan were used for consolidation of project loans, re-leveraging the project, repayment of certain shareholder advance and partial financing of operation and maintenance of the TPLEX project. The loan is subject to fixed interest rate and payable in 39 quarterly installments up to September 19, 2029.

On February 14, 2020, the corporate name of PIDC was changed to SMC TPLEX Corporation.

- **FOOD AND BEVERAGE**

SMB

On December 26, 2019, SMB availed of a P10,000 million five-year term loan. The loan is subject to fixed interest rate payable quarterly. The proceeds were used for general corporate purposes.

SMFI

On December 12, 2019, SMFI drew P10,000 million from its P18,000 million ten-year term loan facility. The loan is subject to floating interest rate with a one-time option to convert to fixed interest rate within two years. The proceeds were used to refinance existing short-term loans and fund its capital expenditure requirement for the upgrade or expansion of its production facilities and/or to finance other general corporate requirements.

San Miguel Mills Inc. (SMMI)

On December 19, 2019, SMMI availed of a P2,000 million seven-year term loan. The loan is subject to floating interest rate with a one-time option to convert to fixed rate within two years. The proceeds of the loan were used to refinance existing short-term loans, fund its capital expenditure requirements for the upgrade or expansion of its production facilities and/or finance other general corporate requirements.

- **SMC**

On June 24, 2019, SMC availed of a P16,000 million fixed rate seven-year term loan. The loan is subject to fixed interest rate payable quarterly. The proceeds were used for general corporate purposes.

FOREIGN-CURRENCY DENOMINATED LOANS

- **Petron**

In May and July 2019, Petron availed of US\$536 million and US\$264 million loans, respectively, from its US\$800 million term loan facility. The proceeds were used to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to partially prepay its existing US\$1,000 million term loan and for general corporate purposes. The loan is subject to floating interest rate and will mature on May 15, 2024.

- **MPPCL**

In 2019, MPPCL availed a total of US\$75 million loan from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 MW (Unit 3 of Masinloc Power Plant) coal-fired power plant. The loan is divided into a fixed interest tranche and a floating interest tranche, with maturities up to December 2030.

- **SMC**

On December 27, 2019, SMC drew US\$50 million from its term loan facility amounting to US\$2,000 million. The loan is subject to floating interest rate with maturity date on September 27, 2024. The proceeds of the loans were used for general corporate purposes.

- **Others**

San Miguel Yamamura Australasia Pty. Ltd. (SMYA)

On July 31, 2019, SMYA drew AU\$80 million from AU\$100 million syndicated facility agreement entered into by SMYA on July 23, 2019. The loan is amortized over five years and is subject to floating interest rate. Proceeds of the loan were used to refinance maturing short-term obligations and general corporate purposes.

ISSUANCE AND REDEMPTION OF BONDS

Shelf-Registration of P60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global and Issuance of P30,000 Million Bonds

On March 29, 2019, the SEC approved the shelf registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global.

On April 24, 2019, SMC Global issued and listed on the PDEX the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million.

The Bonds consist of: (i) three-year Series H Bonds, due in 2022 with an interest rate of 6.8350% per annum; (ii) five-year Series I Bonds, due in 2024 with an interest rate of 7.1783% per annum; and, (iii) seven-year Series J Bonds, due in 2026 with an interest rate of 7.6000% per annum. Interest is payable every 24th of January, April, July and October of each year.

The net proceeds were used for refinancing of maturing long-term debt and short-term loans, for investments in power-related assets and payment of transaction-related expenses.

Issuance of P10,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC

On October 4, 2019, SMC issued fixed-rate Peso-denominated Series H Bonds. The five-year Series H Bonds due in 2024 have fixed interest rate per annum of 5.5500%. Interest is payable every 4th of January, April, July and October of each year.

The net proceeds were used to fund the bridge financing loan for the redemption of the outstanding Series “2” Preferred Shares - Subseries B and additional investment in SMHC for the Manila International Airport Project.

Redemption of Fixed-Rate Peso-Denominated Bonds by SMB

On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate Peso-denominated bonds amounting to P10,000 million and P2,810 million, respectively. The Series E and C bonds formed part of the P20,000 million and P38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

PAYMENT OF MATURING OBLIGATIONS

In 2019, the Group paid P14,382 million of maturing obligations funded by cash generated from operations.

The Infrastructure, Energy and Packaging business paid a total of P8,642 million, P4,511 million and P1,031 million, respectively, of their maturing long-term debt.

ISSUANCE AND REDEMPTION OF EQUITY AND CAPITAL SECURITIES

Issuance of US\$1,300 Million SPCS by SMC Global

On April 25, 2019, SMC Global issued US\$500 million SPCS (the “Original Securities”) at an issue price of 100%, with an initial rate of distribution of 6.5% per annum.

On July 3, 2019, SMC Global issued an additional US\$300 million SPCS (the “Additional Securities”) at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (but excluding) July 3, 2019. The Additional Securities were consolidated into and formed a single series with the Original Securities issued in April 2019. The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price.

On November 5, 2019, SMC Global issued another US\$500 million SPCS (the “2nd Original Securities”) at an issue price of 100% with an initial rate of distribution of 5.95% per annum.

Proceeds from SPCS were used for the redemption of US\$300 million USCS, repayment of indebtedness and for general corporate purposes, including capital expenditures and investments in power-related assets, and for the development of BESS projects.

The US\$1,300 million SPCS are all listed on the SGX-ST.

Issuance of 20,000,000 Series 3 Perpetual Preferred Shares by Petron

On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of P20,000 million.

Dividends are 6.8713% per annum and 7.1383% per annum for Series 3A and Series 3B, respectively.

The net proceeds were used for the redemption of 7,122,320 Series 2A preferred shares, repayment of maturing short-term loans, long-term debt loans and general corporate purposes.

Redemption of Series 2A Preferred Shares (PRF2A Preferred Shares) by Petron

On November 4, 2019, Petron redeemed 7,122,320 PRF2A Preferred Shares at a redemption price of P1,000.00 per share. Petron paid P7,122 million to the holders of PRF2A Preferred Shares.

Redemption of Series “2-B” Preferred Shares (SMC2B Preferred Shares) by SMC

On September 23, 2019, SMC redeemed 90,428,200 SMC2B Preferred Shares at a redemption price of P75.00 per share, and paid P6,782 million to the holders of SMC2B Preferred Shares.

SMC initially obtained a short-term bridge financing loan to redeem the SMC2B Preferred Shares.

The bridge financing loan was paid using the proceeds of the P10,000 million worth of fixed rate Peso-denominated bonds issued by SMC on October 4, 2019.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2020 vs. 2019

Consolidated total assets as at December 31, 2020 amounted to about P2,025,544 million, P94,367 million or 5% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents, property, plant and equipment and other intangible assets, offset by the decrease in inventories and trade and other receivables.

The increase in cash and cash equivalents by P61,285 million was mainly due to the: (a) net proceeds from the issuance by SMC of US\$1,950 million long-term corporate notes and preferred shares (SMC2J Preferred Shares and SMC2K Preferred Shares), and (b) issuance by SMC and SMC Global of US\$500 million and US\$1,350 million SPCS, respectively. The increase was reduced by the: (c) funding of the various capital expenditures of the Group, (d) payment of long-term debt and short-term loans of the Group, and (e) redemption of preferred shares (SMCP1 Preferred Shares and SMC2D Preferred Shares) by SMC.

The decrease in trade and other receivables by P11,942 million was mainly due to lower trade customer balances by Petron attributable to lower fuel prices and drop in sales volume.

The decrease in inventories by P24,640 million was attributable mainly to lower prices and volume of both crude and finished products of Petron Philippines and Petron Malaysia.

The decrease in total biological assets by P1,206 million was mainly due to the closure of some farms affected by the African Swine Fever.

The increase in prepaid expenses and other current assets by P8,030 million was primarily due to: (a) higher specific tax and product replenishment claims and unused creditable withholding taxes by Petron, (b) increase in input taxes by UPSI related to the importations of equipment for the BESS projects, and (c) receipt by SMC of TCC issued by the BIR in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light.

The increase in property, plant and equipment by P47,557 million was mainly due to the: (a) ongoing projects of the Energy business, the Food division, and the Beer and NAB division, and (b) various fixed asset purchases by Petron.

The increase in investment property by P8,842 million was mainly due to the: (a) acquisition of land in Pandacan, Manila by SMHC, (b) acquisition of land for the Airport Project, and (c) various properties acquired by SMPI.

The increase in other intangible assets by P20,414 million was mainly due to the costs of various projects of the Infrastructure business, net of amortization during the year, and the mineral rights recognized upon consolidation of NCC.

The increase in deferred tax assets by P2,831 million was mainly due to the recognition of deferred tax on NOLCO by Petron and SMYPC.

The decrease in other noncurrent assets by P9,261 million was due to the: (a) application of advances to contractors on progress billings by Citra Central Expressway Corp. (CCEC) and Mariveles Power Generation Corporation (MPGC) for the Skyway Stage 3 Project and Mariveles Power Plant Project, respectively, (b) reclassification from noncurrent to current assets of subsidy receivable due for collection in 2021 by SMC TPLEX Corporation, (c) reclassification to debt issue cost of the loan facilitation fees and other filing and agency fees on loan facilities entered in 2019 by SMC, and (d) decrease in restricted cash balance of MPPCL.

The decrease in loans payable by P29,032 million was mainly due to the net payment of loans made by SMC and refinancing of short-term loans to long-term debt by the Food division under the Food and Beverage business and Packaging business.

The decrease in accounts payable and accrued expenses by P23,269 million was mainly due to lower liabilities for crude and petroleum products primarily from the drop in prices as at end of 2020 versus 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron, offset by the additional payables recognized for the construction of Mariveles Power Plant.

The increase in total long-term debt, net of debt issue costs, by P84,101 million was due mainly to the: (a) issuance of US\$1,950 million corporate notes by SMC, (b) issuance of P15,000 million fixed-rate Peso-denominated bonds by SMFB, and (c) availment by the Group of long-term debt. The increase was offset by the payment of maturing obligations and translation adjustments on the foreign currency-denominated loans.

The decrease in lease liabilities, net of current portion, by P27,901 million was primarily due to the payments made to PSALM by the Energy business entities under the Independent Power Producer Administration (IPPA) Agreements.

The increase in other noncurrent liabilities P2,526 million was mainly due to the: (a) recognition by MPGC of retention payable related to the ongoing Mariveles Power Plant Project, (b) remeasurement by Petron of asset retirement obligation, and (c) increase in derivative liability of SMC due to fair valuation and foreign exchange translation.

The decrease in equity reserves by P2,446 million pertains mainly to the currency translation adjustments for the year resulting from the appreciation of Philippine Peso against the US Dollar.

The increase in appropriated retained earnings by P2,287 million was due to additional appropriation by: (a) SMB for the Series G Bond which will mature in 2021, (b) Citra Metro Manila Tollways Corporation for the Alabang South Skyway Extension Project, and (c) SMC Shipping and Lighterage Corporation for various expansion projects, offset by the reversals made by South Premiere Power Corporation (SPPC) and Strategic Power Devt. Corp. (SPDC) for the portion of paid fixed monthly payments to PSALM.

The decrease in unappropriated retained earnings by P3,035 million was mainly due to the dividends declared and distributions paid by SMC.

The increase in non-controlling interests by P88,254 million was mainly due to the: (a) issuance of US\$1,350 million SPCS by SMC Global, (b) issuance of US\$500 million SPCS, RPS, Series 2-J and Series 2-K Preferred Shares by SMC, (c) consolidation of NCC through SMEII effective August 12, 2020 and (d) issuance of P1,500 million RPS by SMEII on July 1, 2020, offset by the: (e) redemption of Series "2" Preferred Shares by SMFB and Series I and Series 2-D Preferred Shares by SMC, and (f) share of non-controlling interests on the Group's net income. This was offset by the share of non-controlling interests on cash dividends and distributions declared, and in currency translation adjustments for the year.

Equity

The increase in equity in 2020 was due to:

<i>(In millions)</i>	
Net addition to non-controlling interests and others	P95,433
Net income during the year	23,622
Cash dividends and distributions	(29,420)
Other comprehensive loss	(4,575)
	<u>P85,060</u>

2019 vs. 2018

Consolidated total assets as at December 31, 2019 amounted to P1,931,177 million, P139,985 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents and the recognition of right-of-use assets with the adoption of PFRS 16 effective January 1, 2019.

The increase in cash and cash equivalents in 2019 by P43,132 million was mainly due to the issuance of SPCS and preferred shares by SMC Global and Petron, respectively, and loan availments of SMC.

The increase in trade and other receivables by P7,865 million was mainly due to higher fuel prices and excise tax on fuel products of Petron, higher revenue of the Beer and NAB and Food divisions, under the Food and Beverage business, SMC Consolidated Power Corporation and MPPCL, partly offset by the decrease in Petron Malaysia's government subsidy receivable.

The increase in inventories by P8,516 million was mainly due to Petron's higher volume of finished product, higher price of crude and higher excise tax on petroleum products as a result of the increase in tax rates beginning 2019.

The decrease in prepaid expenses and other current assets by P5,458 million was primarily due to the: (a) decrease in input tax, goods and services tax and other prepaid taxes of Petron as a result of collection of input tax claim from the government and utilization of input tax for the period, and (b) decrease in restricted cash balance of CCEC. The decrease was partly offset by the receipt by SMB of TCC issued by the BIR in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light and increase in input taxes of the Infrastructure business.

The decrease in property, plant and equipment by P155,594 million and corresponding increase in right-of-use assets by P197,245 million, primarily represents the reclassification to right-of-use assets of the power plants as a result of the adoption of PFRS 16.

The increase in investment property by P19,893 million was mainly due to the set-up of right-of-use assets of Petron for its rented properties being sub-leased to external parties.

The decrease in deferred tax assets by P1,232 million was mainly due to the derecognition by SMC of the deferred tax on NOLCO which expired in 2019.

The increase in other noncurrent assets by P21,757 million was mainly due to the: (a) advances to suppliers and contractors for the construction of the Mariveles Power Plant and BESS projects, (b) purchase of new containers by SMB, and (c) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the TPLEX project.

The decrease in loans payable by P14,461 million was mainly due to net payment made by Petron and deconsolidation of MNHPI.

The increase in accounts payable and accrued expenses by P25,731 million was mainly due to higher liabilities for crude and petroleum products of Petron on account of higher prices and more outstanding shipments as of end-2019 versus 2018, and higher outstanding payable to contractors of the Infrastructure business and MPGC.

The increase in lease liabilities - current portion by P4,842 million pertains to the recognition of current lease liabilities for right-of-use assets as a result of the adoption of PFRS 16 and the reclassification from noncurrent to current liabilities of the lease liabilities under IPPA Agreements due up to December 31, 2020 by the Energy business.

The increase in income and other taxes payable by P1,302 million was mainly due to the higher taxable income of SMB.

The increase in total long-term debt, net of debt issue costs, by P65,116 million was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the US\$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes, P10,000 million fixed-rate Peso-denominated bonds and US\$50 million term loan by SMC, and (d) net loan availments of the Food division under the Food and Beverage business, Packaging business, MPPCL and Infrastructure business. The increase was partially offset by the: (a) redemption of Series C and E bonds of SMB, (b) payment of maturing obligations by Petron, the Energy business and SMC, and (c) foreign currency adjustment on the US Dollar-denominated loans of the Group.

The decrease in finance lease liabilities-net of current portion by P7,544 million was mainly due to payments, net of interest, reclassification to current portion and the effect of foreign exchange rate changes.

The decrease in other noncurrent liabilities by P2,723 million was mainly due to the deconsolidation of MNHPI.

The decrease in equity reserves by P4,522 million pertains to (a) equity reserve from the redemption of USCS by SMC Global (b) currency translation adjustments for the period resulting from the appreciation of Peso against the US Dollar and (c) the equity reserve for retirement plan.

The decrease in the group's appropriated retained earnings by P10,645 million was attributable to the reversals made by the Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC.

The increase in unappropriated retained earnings by P18,815 million was primarily due to the reversal of appropriations and net income for the year, reduced by cash dividends declared.

The increase in non-controlling interests by P61,280 million pertains to the (a) issuance of SPCS by SMC Global, (b) issuance of Preferred Shares by Petron, and (c) share of non-controlling interests on the Group's net income, reduced by cash dividends and distributions declared for the year. The increase was offset by the: (a) redemption of USCS and Preferred Shares by SMC Global and Petron, respectively, and (b) the effect of deconsolidation of MNHPI.

Equity

The increase in equity in 2019 is due to:

(In millions)

Net addition to non-controlling interests and others	P53,108
Net income during the period	48,571
Cash dividends and distributions	(28,523)
Other comprehensive loss	(5,806)
	P67,530

III. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2020	2019	2018
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	P50,457	P91,050	P58,961
Net cash flows used in investing activities	(84,030)	(113,585)	(198,206)
Net cash flows provided by financing activities	104,310	69,272	176,630

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows provided by (used in) investing activities are as follows:

	December 31		
	2020	2019	2018
		<i>(In Millions)</i>	
Additions to property, plant and equipment	(P63,837)	(P66,819)	(P47,325)
Increase in other noncurrent assets and others	(24,547)	(54,231)	(40,541)
Additions to investments and advances and investment in debt instruments	(4,034)	(1,959)	(20,024)
Interest received	6,407	10,560	6,556
Cash and cash equivalents of a consolidated (deconsolidated) subsidiary	1,053	(626)	-
Proceeds from sale of investments and property and equipment	912	871	1,139
Dividends received	16	27	46
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(1,408)	(98,057)

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2020	2019	2018
	<i>(In Millions)</i>		
Net proceeds from issuance of capital securities and preferred shares of subsidiaries	P129,558	P85,733	P24,881
Net proceeds from long-term borrowings	101,524	72,778	176,814
Redemption of capital securities and preferred shares of subsidiaries	(42,656)	(29,087)	(39,769)
Cash dividends and distribution paid	(29,305)	(28,450)	(27,503)
Net proceeds from (payments of) short-term borrowings	(28,447)	(10,218)	32,717
Payments of lease liabilities	(24,825)	(20,673)	(25,698)
Increase (decrease) in non-controlling interests and others	(1,539)	(811)	105
Proceeds from follow-on offering of common shares of a subsidiary	-	-	35,083

The effect of exchange rate changes on cash and cash equivalents amounted to (P9,452) million, (P3,605) million and (P396) million on December 31, 2020, 2019 and 2018, respectively.

IV. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Group include the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” of the MD&A for the discussion of certain Key Performance Indicators.

	December 31	
	2020	2019
<u>Liquidity:</u>		
Current Ratio	1.52	1.38
Quick Ratio	1.06	0.91
<u>Solvency:</u>		
Debt to Equity Ratio	1.95	2.21
Asset to Equity Ratio	2.95	3.21
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	(0.14%)	5.98%
Interest Rate Coverage Ratio	1.78	2.44
Return on Assets	1.19%	2.61%
<u>Operating Efficiency:</u>		
Volume Growth (Decline)	(20%)	3%
Revenue Growth (Decline)	(29%)	0%
Operating Margin	10%	11%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VI. OTHER MATTERS

- Commitments

The outstanding purchase commitments of the Group amounted to P111,845 million as at December 31, 2020.

Amount authorized but not yet disbursed for capital projects is approximately P255,100 million as at December 31, 2020.

- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets, except for Note 43 (a) of the Audited Consolidated Financial Statements as at December 31, 2020.
- Except for the Prepared and Packaged Food and Protein segments of the Food division under the Food and Beverage business, which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period December 31, 2020.



**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of Top Frontier Investment Holdings, Inc. ("Top Frontier" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as at and for the period ended March 31, 2021 (with comparative figures as at December 31, 2020 and for the period ended March 31, 2020). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2021, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. 2021 SIGNIFICANT TRANSACTIONS

AVAILMENT OF LONG-TERM DEBT

a) SMC Global Power Holdings Corp. (SMC Global)

On March 9, 2021, SMC Global executed a five-year term loan facility agreement for the amount of US\$200 million used to refinance its maturing US\$200 million loan obligation. Drawdown was completed on March 12, 2021. The loan is subject to a floating interest rate and will mature in March 2026.

b) SMC Tollways Corporation, formerly Atlantic Aurum Investments Philippines Corporation (SMC Tollways)

On March 16, 2021, SMC Tollways drew a total of P9,500 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. The proceeds of the loan will be used to refinance existing debt obligations, to invest and/or advance for infrastructure projects, for general corporate requirements and to finance transaction-related fees, taxes and expenses. The loan is subject to fixed interest rate and payable in 40 quarterly installments up to December 14, 2029. Total amount drawn from the facility amounted to P37,800 million as at March 31, 2021.

REDEMPTION OF EQUITY AND CAPITAL SECURITIES

a) Redemption of Series "2-G" Preferred Shares (SMC2G) by San Miguel Corporation (SMC)

On March 30, 2021, SMC redeemed all the outstanding SMC2G Preferred Shares totaling 66,666,600 shares. The redemption price was the issue price of P75.00 per share, plus any accumulated unpaid cash dividends. The SCM2G Preferred Shares were issued on March 30, 2016.

The SMC2G Preferred Shares were redeemed using the proceeds of the US\$1,950 million drawdown in March 2020 on the US\$2,000 million facility agreement.

The shares redeemed were not retired and may be re-issued by SMC at a price to be determined by the Board of Directors. The shares are suspended until re-issued by SMC, upon the approval of the application for lifting of trading suspension by SMC, in accordance with the listing rules of the Philippine Stock Exchange.

b) Redemption of Undated Subordinated Capital Securities (USCS) by SMC Global

On February 26, 2021, SMC Global completed the redemption of its US\$300 million USCS issued on August 26, 2015 pursuant to the terms and conditions of the securities. The redemption price includes the principal amount and any accrued but unpaid distributions up to (but excluding) February 26, 2021.

The US\$300 million USCS were redeemed using in part the proceeds of the US\$350 million Senior Perpetual Capital Securities (SPCS) issued on December 15, 2020.

REDEMPTION OF BONDS

Redemption of Fixed-Rate Peso-Denominated Series G Bonds by San Miguel Brewery Inc. (SMB)

On March 31, 2021, SMB remitted P12,462 million to the designated payment account maintained by the Philippine Depository and Trust Corporation for the redemption of the fixed-rate Peso-denominated Series G Bonds which matured on April 5, 2021. Upon remittance, the obligation of SMB to pay the Series G Bonds is discharged under the relevant agreements for the bonds.

The payment came from the availment of the P12,000 million term loans on March 30, 2021 from four banks. The loans are subject to fixed interest rates, where P10,000 million loans are due on March 30, 2026 and P2,000 million loans are due on March 30, 2028.

PAYMENT OF OTHER MATURING OBLIGATIONS

During the three-month period ended March 31, 2021, the Group paid a total of P3,775 million of maturing obligations funded by cash generated from operations.

Petron Corporation (Petron), Energy, Infrastructure, Packaging and SMC paid a total of P1,411 million, P869 million, P826 million, P629 million and P40 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2021 vs. 2020

The Group's consolidated sales for the first quarter of 2021 ended at P201,157 million, 6% lower than the previous year. This, however, was an improvement from the 15% decline recorded in the first quarter of 2020 and the 29% decline for the full year last year. Petron, Energy and Infrastructure businesses continue to be weighed down by lower demand due to restrained mobility, travel and commercial/social events. This was offset by the Food and Beverage business' continuous volume recoveries combined with better selling prices.

Lower cost of sales by 18% to P149,292 million was mainly due to the decline in sales volume and cost per liter of Petron, partly offset by the increase in sales volume of the Spirits division under the Food and Beverage business.

The decrease in selling and administrative expenses by 5% to P20,050 million was mainly due to the lower advertising and promotions and freight, trucking and handling expenses, primarily from Petron and the Beer and Non-Alcoholic Beverages (NAB) and Food divisions under the Food and Beverage business.

With sustained improvements from the Food and Beverage business and the turnaround of Petron, coupled with lower raw material costs and effective cost saving efforts across the Group, consolidated operating income significantly increased to P31,815 million for the first quarter of 2021 from P11,320 million in the same period last year.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) reached P40,696 million, 54% higher than last year's P26,375 million, backed by significant improvements by most of the businesses.

The decrease in interest expense and other financing charges was mainly due to the lower average interest rate and borrowing level of Petron.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and cash equivalents.

The increase in equity in net earnings (losses) of associates and joint ventures was mainly due to the share in net income of Angat Hydropower Corporation (Angat Hydro) and Bank of Commerce in March 2021 versus net loss in the same period last year.

The loss on sale of property and equipment in 2020 pertains mainly to the retirement of fixed assets by San Miguel Yamamura Packaging Corporation (SMYPC) Manila Plastics Plant due to the fire incident in Pandacan, Manila in February 2020.

The other charges - net in 2021 was mainly due to the commodity hedging loss by Petron, offset by San Miguel Energy Corporation's recognition of income from reduction of Power Sector Assets and Liabilities Management Corporation (PSALM) fixed fee charges for the outages of Sual Power Plant's Units 1 and 2 in the first quarter of 2021.

The decrease in income tax expense was mainly due to the impact of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law primarily on the deferred tax liabilities of the Energy business' entities under the Independent Power Producer Administration (IPPA) Agreements. The decrease was offset by the income tax expense of Petron in March 2021 compared to income tax benefit in the same period last year.

Consolidated net income ended at P16,377 million, more than 26 times higher than the previous year, reflecting the strong recoveries from Petron and the Food division, together with consistent growth from the Spirits division and the Energy business.

The share of non-controlling interests on the Group's net income increased in March 2021 mainly due to the: (a) net income of Petron in March 2021 compared to net loss in March 2020, (b) higher amount of distribution on SMC Global's SPCS, and (c) higher net income of the Food and Beverage business.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc.'s (SMFB) consolidated sales for the first quarter of 2021 grew 11% to P76,362 million. This was attributable to sustained all-time high volumes from the Spirits division, continuous volume improvements of the Food division and generally better selling prices from the Food and Beer and NAB divisions.

Consolidated operating income and net income stood at P12,569 million and P9,679 million, notable increases of 45% and 66%, respectively.

a. Beer and NAB Division

SMB recorded consolidated sales of P28,846 million for the first quarter, a 2% improvement from last year. Consolidated volumes, which continue to be affected by various quarantine restrictions and liquor bans in the domestic operations, ended at 51.5 million cases, down by 11%. Notwithstanding, operating income grew by 25% to P6,751 million on the back of effective cost management efforts. Net income increased by 45% from the same period last year to P5,458 million.

Domestic Operations

Domestic operations' sales ended 2% higher than last year at P26,294 million, buoyed by the price increase implemented in March 2020. Volumes in the first quarter still ended lower by 13% at 46.4 million which continues to be weighed down by the liquor bans in selected regions and key cities and the closure of most on-premise outlets.

Operating income ended at P6,413 million, up by 25% from last year, resulting from continued cost management efforts.

SMB continues to focus its efforts on strengthening further its company-initiated consumption-generating programs and direct-to-consumer initiatives to help improve sales. Among these are the digital ads such as the new "*Beer Call Muna Tayo*" and "*#Tara Beer Tayo*" for Pale Pilsen, thematic visibility campaigns, brand awareness initiatives posted on Facebook and SMB PH official Viber and other consumer promos.

International Operations

International operations posted higher volumes, up 4% from the previous year, as Indonesia, Hong Kong, South China, Vietnam and Exports markets continue to deliver better performance from last year.

b. Spirits Division

Ginebra San Miguel Inc.'s (GSMI) achieved a net income of P1,042 million for the first quarter, up 120% year-on-year, the highest earned in a single quarter by the division. Consolidated sales and operating income stood at P11,338 million and P1,290 million, an increase of 52% and 88% versus last year, respectively. Volumes was 29% higher compared to last year's levels - similarly an all-time quarter high, which was driven by strong consumption, boosted by Ginebra San Miguel's new thematic campaign "*Bagong Tapang*", Vino Kulafu's re-airing of "*Lakas sa Magandang Bukas*", combined with sustained efforts on distribution expansion.

c. Food Division

The Food division sustained its good momentum since the last quarter of 2020, posting consolidated sales of P36,180 million in the first quarter of 2021, 9% higher compared to the previous year, driven by higher volumes and generally better selling prices across all its business segments.

Consolidated operating income reached P4,533 million, up 75% from last year, lifted by continuous cost reduction efforts and optimization of the use of company owned facilities.

The Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, sales grew 11% versus last year mainly driven by volume and favorable selling prices brought by continuous short supply of pork nationwide. Volumes in supermarkets and *lechon manok* outlets continue to improve which has already gone back to normal operations, while sales to food service accounts continue to struggle due to limited operations. The community resellers also continue to grow which has now reached more than 14,500 as at end of March around the country, contributing more than 1/3 of total volumes.

Animal Nutrition and Health segment sustained its growth momentum as revenues grew by 13%, driven by continuing strong demand for commercial feeds consisting of our free-range fowl, aquatic, duck, and layer feeds. Vetmed and Petfood volumes likewise posted growth during the period. This was partly offset by lower demand from hogs and broiler feeds due to African Swine Fever and shortage of day-old broilers, respectively.

Meanwhile, revenues of the Prepared and Packaged Food segment grew by 6% from last year as sales from refrigerated meats - TJ hotdog, canned products (Spam, Star and Dari margarine), Cheese and Magnolia pancake mixes continue to grow.

The newly launched seafood line, plant-based products and ready-to-eat lines have also been gaining interest from the consumers which allowed them choices of different food variety and preferences.

Revenues of the Flour segment grew 5% mainly driven by new accounts and sustained double digit growth since December 2020 from the recoveries of our existing dealers which resumed operations.

2. PACKAGING

The Packaging business' consolidated sales for the first quarter amounted to P7,354 million, down 13% from last year, mainly due to lower demand from key beverage and food customers, with Export sales constrained by tight shipments.

As a result, operating income amounted to P393 million, 31% lower than the previous year.

3. ENERGY

SMC Global reported consolidated sales of P27,366 million for the first quarter of 2021, 3% lower versus the previous year, as off-take volumes of 6,344 Gigawatt Hours (Gwh) declined by 5%. This was mainly due to continuing quarantine restrictions and lower spot sales which were mitigated by higher average realization prices.

Operating income year-on-year grew by 8% to P8,423 million brought by a combination of lower fuel costs and operating expenses. Net income stood at P7,777 million, 141% higher from the previous year.

4. FUEL AND OIL

Petron bolstered its rebound with a reported net income of P1,730 million for the first quarter of 2021, a significant reversal from the net loss of P4,877 million in the same period last year.

While sales volumes continue to improve, it still reflected the slowdown in demand due to Coronavirus Disease 2019 (COVID-19) pandemic, and ended the quarter with 19.4 million barrels, 21% lower than the 24.7 million barrels sold in the same period in 2020. Consolidated sales settled at P83,307 million, down 20% from P104,623 million a year ago.

Operating income reached P3,661 million from last year's operating loss of P4,409 million. This was mainly due to an inventory gain this quarter, in contrast with an inventory loss in the same period last year, resulting from recent improvements in international oil prices.

Petron has built 14 new service stations in the first quarter and plans to build more for the rest of the year. The Bataan Refinery has also started to transition into AFAB (Authority of the Freeport Area of Bataan) and begun to avail of fiscal incentives from operating in a freeport zone.

5. INFRASTRUCTURE

The Infrastructure business' sales for the first quarter of 2021 stood at P4,330 million, down 7% versus same period last year. Average daily traffic has been improving since December 2020 despite prevailing travel restrictions. South Luzon Expressway (SLEX) and Star Tollway, in particular, registered higher average daily traffic volumes compared to the first quarter of last year.

Operating income amounted to P1,182 million, a decline of 33% year-on-year, resulting from higher operating expenses.

While the Infrastructure business is efficiently managing the operating toll roads and monitoring the recovery of traffic flow, construction works of ongoing projects continue. On April 11, 2021, the Alabang South Skyway Extension opened the Northbound section, and the Southbound section is nearing completion. The Skyway Stage 3 has also received the Toll Regulatory Board approval of the provisional toll rates which has already been published and just waiting for the Toll Operating Permit for partial operation and Notice to Start Collection. Construction of Metro Rail Transit 7 is also progressing well.

2020 vs. 2019

Consolidated sales for the first quarter of 2020 ended at P214,060 million from P250,920 million of the same period in 2019 while consolidated operating income was at P11,320 million from P30,692 million. As expected, the impact on consolidated operating income was significant due to the volumes lost in March 2020, the inventory loss incurred by Petron, the increased alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the pandemic especially costs relating to all employees and direct third party providers whose salaries and allowances were paid in full to ensure their financial well-being and that of their families while they stay safe at home.

Consolidated EBITDA remained healthy at P26,375 million lower than 2019's P40,436 million even with the EBITDA of the Food division under the Food and Beverage business growing more than double compared to the same period in 2019.

Lower cost of sales by 9% to P181,685 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and the Food and Beverage business, and (b) Energy business' lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant, lower average cost of coal prices for Sual and Masinloc Power Plants as coal indices continue to decline, and lower average cost of spot purchases.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and cash equivalents.

The decrease in equity in net earnings (losses) of associates and joint ventures was mainly due to the share in net losses of Angat Hydro in 2020 versus net income in 2019, offset by share in net income of Manila North Harbour Port, Inc. in 2020.

Loss on sale of property and equipment in 2020 pertains to the retirement of the fixed assets by SMYPC Manila Plastics Plant due to the fire incident in Pandacan, Manila in February 2020.

Other income - net in 2020 consists mainly of the: (a) gain on derivatives resulting from currency and commodity hedging of Petron and (b) settlement received by the Energy business from third party contractors on account of damages arising from the latter's nonfulfillment of obligations under procurement-related contracts, partly offset by SMYPC Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila.

The lower income tax expense was primarily due to the: (a) tax benefit of Petron from loss before tax in 2020 versus tax expense on income before tax in 2019 and (b) lower taxable income of the Beer and NAB and Spirits divisions, partly offset by the (c) higher provision for income tax recognized by the Food division.

Consolidated net income amounted to P606 million, significantly lower than 2019.

Share of non-controlling interests on the Group's net income decreased in 2020 mainly due to net loss of Petron in 2020 versus net income in 2019 and lower net income of the Beer and NAB division.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

SMFB's consolidated sales for the first three months of 2020 amounted to P69,018 million, 9% lower than the same period in 2019 which was mainly brought about by the slowdown in the Beer and Spirits divisions sales during the Enhanced Community Quarantine (ECQ) period, heightened by the liquor ban implemented by some local government units (LGUs) in Metro Manila and key cities in Luzon. This was partly offset by higher sales from the Food division, particularly from its Prepared and Packaged Food segment.

Coupled with the increase in excise taxes on Beer and Spirits divisions at the beginning of 2020, consolidated operating income declined by 20% to P8,643 million. Consolidated net income, likewise, dropped by 21% to P5,826 million.

a. Beer and NAB Division

SMB posted consolidated sales of P28,404 million in 2020, 18% lower versus 2019, largely on the back of lower volumes at 58.3 million cases for the first quarter. Operating income and net income both declined by 44% versus 2019 to P5,383 million and P3,770 million, respectively.

Domestic Operations

Domestic operations posted sales of P25,752 million in 2020, 18% lower versus 2019. Beer volumes were up during the first two months in 2020 but the ECQ impacted on sales which forced closure of all on-premise outlets, limited transport activities and banning of selling of liquor products by LGUs in Metro Manila and key cities in Luzon. This resulted to volumes dropping by 24% to 53.2 million cases for the first quarter.

International Operations

Similarly, SMB's international operations managed countries were not spared by the COVID-19 pandemic with governments implementing their respective containment measures resulting to decline in consumption and shutdown of some production operations.

b. Spirits Division

GSMI had a good start in 2020 up until February recording double digit volume growth from the same period in 2019. The ECQ and liquor bans in March, however, affected sales volume in the first quarter, which was 14% less than 2019. The strong performance in the first two months helped cushion the decline in sales volume in March 2020 resulting in first quarter sales of P7,452 million and operating income of P686 million, 10% and 30% lower than 2019, respectively. Net income amounted to P474 million, 23% lower versus the same period in 2019.

c. Food Division

The Food division generated consolidated sales of P33,161 million for the first quarter of 2020, 2% higher than the same period in 2019, driven by the strong performance of its refrigerated meats, grocery products, dairy and spreads segments. There was a significant spike in sales in most of the food products as consumers stocked up on essential supplies leading up to and during the ECQ period. In particular, sales of the Prepared and Packaged Food segment posted double digit growth as consumers purchased essential items in the processed meats and dairy and cheese segments.

The Protein segment, composed of poultry and fresh meats, saw revenues grow by 3% compared to the same period in 2019 brought about by improvement in average selling prices of chicken year-on-year as the poultry industry recovered from the widespread glut. The growth was partly offset by the decline in requirements as the number of retail outlets was reduced and most food service outlets were closed during the ECQ period.

The Animal Nutrition and Health segment revenues declined by 14% primarily due to the impact of the African Swine Fever outbreak and slowdown in demand for broiler feeds.

The Prepared and Packaged Food segment recorded the highest revenue growth at 16% mainly driven by strong demand from our refrigerated and canned meat products, as well as for butter, margarine and cheese, and coffee products.

The Flour segment revenues posted a 2% growth despite the decline in sales during the ECQ period with a number of our institutional customers, which include bakeshops, fast food, restaurant chains, and dealers, had to either stop or limit their operations.

The Food division ended the quarter with P2,585 million in operating income, more than 8 times higher than the same period in 2019, with the recovery of poultry prices and more stable raw material costs.

As a result, net income amounted to P1,636 million in 2020, significantly higher than 2019.

2. PACKAGING

The Packaging business' performance for the first quarter of 2020 also reflected the effect of the ECQ. Sales amounted to P8,496 million, 4% lower than 2019. Decline was mainly due to reduced orders from the Food and Beverage sectors, while the health and pharmaceutical customers brought in steady volumes.

Operating income amounted to P570 million in 2020, 31% lower than 2019.

3. ENERGY

SMC Global's consolidated sales for the first three months of 2020 amounted to P28,298 million, 18% lower versus 2019 with off-take volumes at 6,644 GWh also declining by 3% compared to the same period in 2019. This was primarily due to the deferral of the commencement to supply Manila Electric Company (Meralco) with the 290 MW mid-merit power supply agreement which was only issued the provisional approval of the Energy Regulatory Commission (ERC) on March 16, 2020 and the deferral of the 260 MW extended contract with Masinloc which remains pending ERC approval to-date. Moreover, the new Meralco baseload power supply agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts which expired on December 25, 2019.

Operating income and net income amounted to P7,823 million and P3,221 million, 21% and 10% lower than same period in 2019, respectively.

4. FUEL AND OIL

Petron continues to be faced with challenges during the first quarter of 2020. The ECQ restricted mobility in and out of the country curtailing economic activities affecting fuel demand. Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand drop caused by the COVID-19 pandemic. The price of benchmark Dubai crude dropped by 66% to \$23 per barrel by end of March 2020 from \$67 per barrel end of December 2019, which resulted in successive rollbacks in pump prices. As a result, Petron's consolidated sales amounted to P104,623 million, down by 16% versus 2019 mainly on account of the decline in average selling price of fuel and lower volumes from both the Philippines and Malaysia ending at 24.7 million barrels, down 6%, from 26.3 million barrels recorded in 2019.

Petron incurred an operating loss of P4,409 million and net loss of P4,877 million in 2020, compared to an operating income of P4,865 million and net income of P1,303 million in 2019. This was due to significant inventory losses in the first quarter of 2020 resulting from the collapse of crude oil price brought by demand contraction in both the local and international markets.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads for the first quarter of 2020 recorded a 15% volume decline as the ECQ restricted travel movements throughout Luzon where our toll roads are located. The company also chose to provide free toll fees to all frontliners passing through the operating toll roads. Thus, consolidated sales of P4,661 million was down 27% and operating income stood at P1,772 million.

III. FINANCIAL POSITION

2021 vs. 2020

Consolidated total assets as at March 31, 2021 amounted to about P2,009,368 million, P16,176 million lower than December 31, 2020. The decrease was primarily due to the lower balance of cash and cash equivalents, inventories and deferred tax assets, offset by the increase in investment property.

The decrease in inventories by P8,131 million was mainly due to the lower volume of crude and finished products of Petron.

The increase in investment property by P4,694 million was mainly due to the acquisition of various properties by San Miguel Properties, Inc.

The decrease in biological assets - net of current portion by P239 million was mainly due to the decrease in poultry inventory caused by the amortization of farms already in the laying stage and lower unit cost for newly loaded flocks.

The decrease in deferred tax assets by P2,774 million was mainly due to the impact of CREATE Law on the tax rates on net operating loss carry-over, allowance for impairment of receivables and inventory losses and unrealized gross profit and foreign exchange losses.

The decrease in dividends payable by P1,542 million was mainly due to the payment by SMC on January 8, 2021 of the dividends declared to preferred shareholders in December 2020.

The increase in current maturities of long-term debt, net of debt issue costs, by 12,032 million was mainly due to the reclassification by SMC of the US\$516 million floating-interest loan to current liabilities, which was redeemed on April 26, 2021, offset by the redemption by SMB of its Series G Bonds.

The decrease in lease liabilities, net of current portion, by P6,384 million was primarily due to the payments made to PSALM by the Energy business' entities under IPPA Agreements.

The decrease in equity reserves by P1,122 million was mainly due to the: (a) redemption of the US\$300 million USCS by SMC Global in February 2021, (b) loss on translation of foreign operations for the period, and (c) impact of the CREATE Law on the Group's deferred tax on reserve for retirement plan.

The increase in appropriated retained earnings by P4,047 million was mainly due to the appropriation for the period by MTD Manila Expressways Inc. to fund the construction of the SLEX Toll Road 4 project, net of Petron's reversal of appropriation for capital projects that were already completed.

2020 vs. 2019

Consolidated total assets as at March 31, 2020 amounted to about P2,023,324 million, P92,147 million or 5% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents from the net proceeds of the issuance of US\$1,950 million corporate notes by SMC.

The decrease in inventories by P17,942 million was attributable mainly to Petron Philippines and Petron Malaysia's lower prices of crude and finished products, partly offset by the increase in volume of crude by Petron Philippines and finished products of Petron Malaysia.

The increase in prepaid expenses and other current assets by P3,943 million was primarily due to the: (a) higher derivative assets, prepaid insurance from unamortized portion of renewed policies, input tax on importation of materials, unused creditable withholding taxes and prepaid Taxes of Petron, (b) recognition of loss reserves recoverable from reinsurers by San Miguel Insurance Company, Ltd. related to losses due to various calamities, and (c) higher restricted cash balances by the Energy business.

The decrease in accounts payable and accrued expenses by P27,956 million was mainly due to the lower liabilities for crude and petroleum products due to drop in prices and fewer outstanding shipments as at end of first quarter 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in income and other taxes payable by P2,976 million was mainly due to the higher excise tax payable of Petron Philippines and sales duty tax payable of Petron Malaysia.

The increase in dividends payable by P244 million primarily represents the dividends declared by Petron on March 10, 2020 to its non-controlling shareholders paid on April 8, 2020.

The increase in total long-term debt, net of debt issue costs, by P118,866 million was mainly due to the: (a) issuance of US\$1,950 million corporate notes by SMC and (b) issuance of P15,000 million fixed-rate Peso-denominated bonds by SMFB. The increase was offset by payment of maturing obligations of Petron, Infrastructure and Energy businesses, and foreign exchange translation adjustments on the US Dollar-denominated loans.

The decrease in lease liabilities, net of current portion, by P7,413 million was primarily due to the payments made to PSALM by the Energy business' entities under IPPA Agreements.

The decrease in equity reserves by P1,374 million was mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

The increase in non-controlling interests by P9,382 million pertains mainly to the issuance of US\$600 million SPCS by SMC Global, offset by the: (a) redemption of preferred shares by SMFB, (b) share of non-controlling interests on the Group's net income reduced by the cash dividends and distributions declared for the period, and (c) foreign exchange translation adjustments.

Equity

The increase (decrease) in equity is due to:

<i>(In millions)</i>	March 31	
	2021	2020
Net income during the period	P16,377	P606
Net addition (reduction) to non-controlling interests and others	(18,252)	15,062
Cash dividends and distributions	(8,347)	(6,755)
Other comprehensive loss	(1,085)	(3,376)
	(P11,307)	P5,537

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2021	2020
Net cash flows provided by (used in) operating activities	P39,693	(P2,266)
Net cash flows used in investing activities	(17,702)	(22,058)
Net cash flows provided by (used in) financing activities	(34,246)	122,947

Net cash flows provided by (used in) operating activities for the period basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	March 31	
	2021	2020
Additions to property, plant and equipment	(P13,537)	(P16,330)
Additions to intangible assets	(2,189)	(2,322)
Additions to investment property	(1,857)	(377)
Increase in other noncurrent assets and others	(687)	(4,900)
Additions to investments and advances and investment in debt instruments	(348)	(287)
Interest received	789	2,022
Proceeds from sale of property and equipment	127	133
Dividends received	-	3

Net cash flows provided by (used in) financing activities primarily included the following:

<i>(In millions)</i>	March 31	
	2021	2020
Redemption of capital securities and preferred shares of subsidiaries	(P19,582)	(P15,000)
Payment of cash dividends and distributions	(9,888)	(6,512)
Payment of lease liabilities	(6,708)	(6,349)
Proceeds from (payment of) short-term loans - net	(2,658)	65
Proceeds from long-term debt - net	4,757	120,711
Net proceeds from issuance of capital securities of a subsidiary	-	30,170

The effect of exchange rate changes on cash and cash equivalents amounted to P1,366 million and (P852 million) for the periods ended March 31, 2021 and 2020, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

	March 2021	December 2020
<u>Liquidity:</u>		
Current Ratio	1.44	1.52
Quick Ratio	1.01	1.06
<u>Solvency:</u>		
Debt to Equity Ratio	1.97	1.95
Asset to Equity Ratio	2.97	2.95
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	3.57%	(0.14%)
Interest Rate Coverage Ratio	2.61	1.78
Return on Assets	1.95%	1.19%
	<u>Periods Ended March 31</u>	
	2021	2020
<u>Operating Efficiency:</u>		
Volume Decline	(7%)	(9%)
Revenue Decline	(6%)	(15%)
Operating Margin	16%	5%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventories} - \text{Current Portion of Biological Assets} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$

KPI	Formula
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting

**CORPORATE GOVERNANCE
TRAININGS AND SEMINARS
FOR 2020**

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc. TFHI

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Compliance Report with Corporate Governance Training Requirement
Report Period/Report Date	Sep 16, 2020

Description of the Disclosure

Please see attached letter to the Securities and Exchange Commission, dated September 16, 2019, filed on even date via electronic mail, relating to the Corporate Governance Seminar held on September 9, 2020 which was attended by the directors and officers of Top Frontier Investment Holdings, Inc. named therein.

Filed on behalf by:

Name	Paula Katherina Gan
Designation	Legal Counsel

COVER SHEET

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S. E. C. Registration Number

T O P F R O N T I E R

I N V E S T M E N T H O L D I N G S

I N C .

(Company's Full Name)

5 th F l o o r , E N Z O B l d g .

3 9 9 S e n . G i l P u y a t

A v e . , M a k a t i C i t y

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

Virgilio S. Jacinto

Contact Person

(02) 8632-3143

Company Telephone Number

1 2

Month

3 1

Day

Compliance Report on Corporate Governance Seminar
FORM TYPE

0 7

Month

0 9

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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September 16, 2020

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Pasay City

Attention: **Atty. Rachele G. Remalante**
Officer-in-Charge
Corporate Governance and Finance Department

Re: Compliance with the Corporate Governance
Training Requirement

In compliance with SEC Memorandum Circular No. 20, Series of 2013, the following directors and officers of Top Frontier Investment Holdings, Inc. have attended a corporate governance training seminar conducted by SGV & Co.:

No.	Name	Position	Date
1.	Ferdinand K. Constantino	Director	September 9, 2020
2.	Aurora T. Calderon	Director and Treasurer	September 9, 2020
3.	Virgilio S. Jacinto	Corporate Secretary and Compliance Officer	September 9, 2020

For your information and reference, attached are copies of their respective Certificates of Attendance.

Very truly yours,

Virgilio S. Jacinto
Corporate Secretary
and Compliance Officer

Encl.: a/s



This

Certificate of Attendance

is presented to

Ferdinand K. Constantino

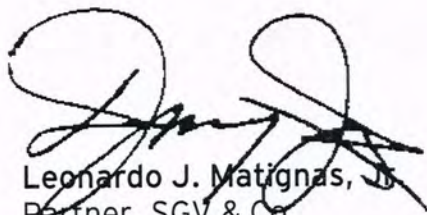
for having completed the seminar on

Corporate Governance

9 September 2020

9:00 a.m. to 12:00 p.m.

Virtual Training via Microsoft Teams



Leonardo J. Matignas, Jr.
Partner, SGV & Co.



This

Certificate of Attendance

is presented to

Aurora T. Calderon

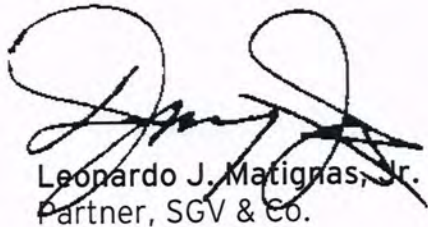
for having completed the seminar on

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9:00 a.m. to 12:00 p.m.

Virtual Training via Microsoft Teams



Leonardo J. Matignias, Jr.
Partner, SGV & Co.



This

Certificate of Attendance

is presented to

Atty. Virgilio S. Jacinto

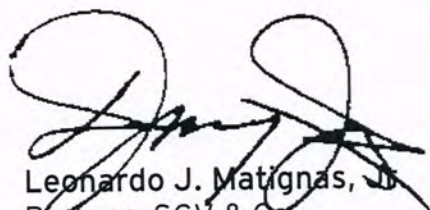
for having completed the seminar on

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9 September 2020

9:00 a.m. to 12:00 p.m.

Virtual Training via Microsoft Teams



Leonardo J. Matignas, Jr.
Partner, SGV & Co.

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TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc. TFHI

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Compliance with the Corporate Governance Training Requirement
Report Period/Report Date	Oct 5, 2020

Description of the Disclosure

Please see attached letter to the Securities and Exchange Commission, dated October 5, 2020, relating to the Corporate Governance Seminar held on September 25, 2020 which was attended by the directors of Top Frontier Investment Holdings, Inc. named therein.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

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S. E. C. Registration Number

T O P F R O N T I E R

I N V E S T M E N T H O L D I N G S

I N C .

(Company's Full Name)

5 th F l o o r , E N Z O B l d g .

3 9 9 S e n . G i l P u y a t

A v e . , M a k a t i C i t y

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

Virgilio S. Jacinto

Contact Person

(02) 8632-3143

Company Telephone Number

1 2

Month

3 1

Day

Compliance Report on Corporate Governance Seminar

FORM TYPE

0 7

Month

0 9

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

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Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

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October 5, 2020

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Pasay City

Attention: **Atty. Rachelle G. Remalante**
Officer-in-Charge
Corporate Governance and Finance Department

Re: Compliance with the Corporate Governance
Training Requirement

In compliance with SEC Memorandum Circular No. 20, Series of 2013, the following directors of Top Frontier Investment Holdings, Inc. have attended a corporate governance training seminar conducted by SGV & Co.:

No.	Name	Position	Date
1.	Minita V. Chico - Nazario	Independent Director	September 25, 2020
2.	Ferdinand K. Constantino	Director	September 25, 2020

For your information and reference, attached are copies of their respective Certificates of Attendance.

Very truly yours,

Virgilio S. Jacinto
Corporate Secretary
and Compliance Officer



This

Certificate of Attendance

is presented to

Minita V. Chico-Nazario

for having completed the seminar on

Corporate Governance

25 September 2020

1:30 p.m. to 4:30 p.m.

Virtual Training via Zoom



Leonardo J. Matignas, Jr.
Partner, SGV & Co.



This

Certificate of Attendance

is presented to

Ferdinand K. Constantino

for having completed the seminar on

Corporate Governance

25 September 2020

1:30 p.m. to 4:30 p.m.

Virtual Training via Zoom



Leonardo J. Matignas, Jr.
Partner, SGV & Co.

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TOP FRONTIER
INVESTMENT HOLDINGS, INC.

Top Frontier Investment Holdings, Inc. TFHI

PSE Disclosure Form 17-18 - Other SEC Forms/Reports/Requirements

Form/Report Type	Compliance Report with Corporate Governance Training Requirement
Report Period/Report Date	Dec 11, 2020

Description of the Disclosure

Please see attached letter to the Securities and Exchange Commission, dated December 11, 2020, filed on even date via electronic mail, relating to the Corporate Governance Seminars held on December 1 and 3, 2020 which was attended by the directors and officers of Top Frontier Investment Holdings, Inc. named therein.

Filed on behalf by:

Name	Irene Cipriano
Designation	Assistant Corporate Secretary

COVER SHEET

C S 2 0 0 8 0 3 9 3 9

S. E. C. Registration Number

T O P F R O N T I E R

I N V E S T M E N T H O L D I N G S

I N C .

(Company's Full Name)

5 th F l o o r , E N Z O B l d g .

3 9 9 S e n . G i l P u y a t

A v e . , M a k a t i C i t y

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

Virgilio S. Jacinto

Contact Person

(02) 8632-3143

Company Telephone Number

1 2

Month

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Day

Compliance Report on Corporate Governance Seminars

FORM TYPE

0 7

Month

0 9

Day

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

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Foreign

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To be accomplished by SEC Personnel concerned

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December 11, 2020

SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex
Pasay City

Attention: **Atty. Rachelle G. Remalante**
Officer-in-Charge
Corporate Governance and Finance Department

Re: Compliance with the Corporate Governance Training Requirement

In compliance with SEC Memorandum Circular No. 20, Series of 2013, the following directors and officers of Top Frontier Investment Holdings, Inc. attended the Corporate Governance Training Seminars:

No.	Name	Position	Provider	Date
1.	Iñigo U. Zobel	Chairman	KPMG, R. G. Manabat & Co.	December 1, 2020
2.	Ramon S. Ang	Director, President and Chief Executive Officer	Center for Global Best Practices	December 3, 2020
3.	Ferdinand K. Constantino	Director	KPMG, R. G. Manabat & Co. Center for Global Best Practices	December 1, 2020 December 3, 2020
4.	Consuelo M. Ynares – Santiago	Independent Director	Center for Global Best Practices	December 3, 2020
5.	Teresita J. Leonardo – De Castro	Independent Director	Center for Global Best Practices	December 3, 2020
6.	Bella O. Navarra	Chief Finance Officer	Center for Global Best Practices	December 3, 2020
7.	Irene M. Cipriano	Assistant Corporate Secretary	KPMG, R. G. Manabat & Co.	December 1, 2020
8.	Maria Rosario B. Balanza	Investor Relations Officer & Data Protection Officer	Center for Global Best Practices	December 3, 2020
9.	Ramon R. Bantigue	Internal Audit Group Head	KPMG, R. G. Manabat & Co.	December 1, 2020

For your information and reference, attached are copies of the Certificates of Attendance.

Very truly yours,

Virgilio S. Jacinto
Corporate Secretary & Compliance Officer



R.G. Manabat & Co.

Presents this

Certificate of Attendance

To

Mr. Iñigo U. Zobel

for attending the

Corporate Governance Webinar

Total Number of Hours Earned: **4.0**

Date	Duration	Session Title
December 1, 2020	1.0 hour	Sustainability Reporting
December 1, 2020	0.30 minutes	Material Related Party Transactions
December 1, 2020	0.30 minutes	Revised Corporation Code
December 1, 2020	1.0 hour	Fraud in the Wake of COVID-19
December 1, 2020	1.0 hour	Strengthen Cybersecurity

Given this 1st day of December 2020, by KPMG R. G. Manabat & Co. with
ITP Accreditation No. CG2019-002.

Kristine I. Aguirre

Partner, Advisory



(SEC Provider Accreditation Number CG2018-002)

in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Ramon S. Ang

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

- Best Practices in Sustainability Reporting for Publicly-Listed Companies
- Best Practices for Successfully Managing OFAC, OFSI, and EU Sanctions for Global Businesses: An Executive Briefing for Board Directors and Management as an Anti-Corruption Program

held at 2:00 in the afternoon

on Thursday, December 3, 2020 via 

*Henry Belleza Aquende
Founder & President
Center for Global Best Practices*

*Atty. Teodoro Kalaw IV
Course Director & Lecturer
Center for Global Best Practices*

*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



R.G. Manabat & Co.

Presents this

Certificate of Attendance

To

Mr. Ferdinand K. Constantino

for attending the

Corporate Governance Webinar

Total Number of Hours Earned: **4.0**

Date	Duration	Session Title
December 1, 2020	1.0 hour	Sustainability Reporting
December 1, 2020	0.30 minutes	Material Related Party Transactions
December 1, 2020	0.30 minutes	Revised Corporation Code
December 1, 2020	1.0 hour	Fraud in the Wake of COVID-19
December 1, 2020	1.0 hour	Strengthen Cybersecurity

Given this 1st day of December 2020, by KPMG R. G. Manabat & Co. with
ITP Accreditation No. CG2019-002.

Kristine I. Aguirre

Partner, Advisory



(SEC Provider Accreditation Number CG2018-002)

in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Ferdinand K. Constantino

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

- Best Practices in Sustainability Reporting for Publicly-Listed Companies
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*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



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in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Consuelo M. Ynares-Santiago

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

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Center for Global Best Practices*

*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



(SEC Provider Accreditation Number CG2018-002)

in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Teresita J. De Castro

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

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held at 2:00 in the afternoon

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Course Director & Lecturer
Center for Global Best Practices*

*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



(SEC Provider Accreditation Number CG2018-002)

in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Bella O. Navarra

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

- Best Practices in Sustainability Reporting for Publicly-Listed Companies
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held at 2:00 in the afternoon

on Thursday, December 3, 2020 via 

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Founder & President
Center for Global Best Practices*

*Atty. Teodoro Kalaw IV
Course Director & Lecturer
Center for Global Best Practices*

*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



R.G. Manabat & Co.

Presents this

Certificate of Attendance

To

Atty. Irene M. Cipriano

for attending the

Corporate Governance Webinar

Total Number of Hours Earned: **4.0**

Date	Duration	Session Title
December 1, 2020	1.0 hour	Sustainability Reporting
December 1, 2020	0.30 minutes	Material Related Party Transactions
December 1, 2020	0.30 minutes	Revised Corporation Code
December 1, 2020	1.0 hour	Fraud in the Wake of COVID-19
December 1, 2020	1.0 hour	Strengthen Cybersecurity

Given this 1st day of December 2020, by KPMG R. G. Manabat & Co. with
ITP Accreditation No. CG2019-002.

Kristine I. Aguirre

Partner, Advisory



(SEC Provider Accreditation Number CG2018-002)

in collaboration with



presents this

CERTIFICATE OF ATTENDANCE

to

Maria Rosario B. Balanza

for participating in the 3-hour webinar

CORPORATE GOVERNANCE IN-HOUSE TRAINING

- Best Practices in Sustainability Reporting for Publicly-Listed Companies
- Best Practices for Successfully Managing OFAC, OFSI, and EU Sanctions for Global Businesses: An Executive Briefing for Board Directors and Management as an Anti-Corruption Program

held at 2:00 in the afternoon

on Thursday, December 3, 2020 via 

*Henry Belleza Aquende
Founder & President
Center for Global Best Practices*

*Atty. Teodoro Kalaw IV
Course Director & Lecturer
Center for Global Best Practices*

*Dr. Stephen P. Cutler
Course Director & Lecturer
Center for Global Best Practices*



R.G. Manabat & Co.

Presents this

Certificate of Attendance

To

Mr. Ramon R. Bantigue

for attending the

Corporate Governance Webinar

Total Number of Hours Earned: **4.0**

Date	Duration	Session Title
December 1, 2020	1.0 hour	Sustainability Reporting
December 1, 2020	0.30 minutes	Material Related Party Transactions
December 1, 2020	0.30 minutes	Revised Corporation Code
December 1, 2020	1.0 hour	Fraud in the Wake of COVID-19
December 1, 2020	1.0 hour	Strengthen Cybersecurity

Given this 1st day of December 2020, by KPMG R. G. Manabat & Co. with
ITP Accreditation No. CG2019-002.

Kristine I. Aguirre

Partner, Advisory

RESULTS OF THE 2020 PERFORMANCE ASSESSMENT OF THE BOARD OF DIRECTORS (*Rating: 5 — highest; 1 — lowest*)

4.73 – Fulfillment of Board’s Key Responsibilities

4.82 – Board-Management Relationship

4.73 – Effectiveness of Board Processes and Meetings

4.83 – Individual Performance of Board Members

Annex “F”

DIRECTORS’ ATTENDANCE SUMMARY (Meetings held since the 2020 Annual Stockholders’ Meeting up to present)

	July 9, 2020 ASH Meeting	July 9, 2020 Org. Meeting	August 6, 2020 ARO Meeting	August 6, 2020 CG Meeting	August 6, 2020 BOD Meeting	November 5, 2020 ARO Meeting	November 5, 2020 CG Meeting	November 5, 2020 BOD Meeting	March 11, 2021 ARO Meeting	March 11, 2021 CG Meeting	March 11, 2021 RPT Meeting	March 11, 2021 BOD Meeting	May 06, 2021 ARO Meeting	May 06, 2021 CG Meeting	May 06, 2021 BOD Meeting
Iñigo U. Zobel	✓	✓	N/A	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	✓	N/A	N/A	✓
Ramon S. Ang	✓	✓	N/A	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	✓	N/A	N/A	✓
Aurora T. Calderon	✓	✓	✓	N/A	✓	✓	N/A	✓	✓	✓	✓	✓	✓	N/A	✓
Ferdinand K. Constantino	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Consuelo M. Ynares-Santiago	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Minita V. Chico-Nazario	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Teresita J. Leonardo-De Castro	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

LEGEND:

BOD Meeting – Regular Meeting of the Board of Directors

ASH Meeting – Annual Stockholders’ Meeting

Org. Meeting - Organizational Meeting of the Board of Directors

Special BOD Meeting – Special Meeting of the Board of Directors

ARO Meeting - Audit & Risk Oversight Committee Meeting

CG Meeting - Corporate Governance Committee Meeting

RPT Meeting – Related Party Transactions Committee Meeting

**MINUTES OF THE ANNUAL MEETING
OF THE STOCKHOLDERS
OF
TOP FRONTIER INVESTMENT HOLDINGS, INC.**

Held through remote communication and livestreamed from
No. 40 San Miguel Avenue, Mandaluyong City
via the Company's website
<https://www.topfrontier.com.ph/index.php/investor/TFASM2020.html>
on July 09, 2020, 2:00 p.m.

Total Number of Shares Present:	Common	-	297,951,214 (89.51%)
	Preferred	-	1,904,540 (100%)
	Total	-	299,857,754 (89.57%)

Total Number of Shares Issued and Outstanding:	Common	-	332,886,167
	Preferred	-	1,904,540
	Total	-	334,790,707

List of Stockholders Present: Please see Annex "A"

Voting Results: Please see Annex "B"

Directors Present:

Iñigo U. Zobel
Ramon S. Ang
Ferdinand K. Constantino
Aurora T. Calderon
Consuelo M. Ynares-Santiago
Minita V. Chico-Nazario
Teresita J. Leonardo-De Castro

Officers Present:

Bella O. Navarra
Virgilio S. Jacinto
Maria Rosario B. Balanza
Ramon R. Bantigue
Irene M. Cipriano

1. CALL TO ORDER

Mr. Iñigo U. Zobel, the Chairman of the Board, called the meeting to order and presided over the same.

After the singing of the National Anthem, Ms. Doris J. Ong, led the invocation.

On behalf of the Board of Directors, officers and employees of the Company, the Chairman extended his heartfelt condolences to the family and loved ones of the Chairman and Chief Executive Officer of San Miguel Corporation, Mr. Eduardo M. Cojuangco, Jr., and extended deepest gratitude and sincerest appreciation to Mr. Cojuangco for his invaluable service and contribution to the entire San Miguel Group.

2. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary, Atty. Virgilio S. Jacinto, certified that notices to the shareholders were duly sent in accordance with the relevant rules and regulations of the Securities and Exchange Commission. He certified that there are present in person or by proxy, stockholders owning and/or representing approximately 89.51% of the outstanding common shares, and 100% of the outstanding preferred shares, for a total of approximately 89.57% of the outstanding capital stock of the Company.

Atty. Jacinto stated, for the record, that proxies executed by stockholders owning and/or representing approximately 89.50% of the outstanding common and preferred shares of the Company have been issued in favor of the Chairman authorizing him to vote for the approval of all corporate actions in the Agenda of the meeting circulated to the stockholders. He reiterated that voting shall be made in accordance with the procedure set forth in the Information Statement, as available in the Company's website and in the PSE Edge, and hereto attached as Annex "C".

The Corporate Secretary acknowledged the attendance of all the incumbent directors of the Company, as well as the Company's external auditor for 2019, R.G. Manabat & Co. He advised the stockholders that after the Annual Report there will be an open forum. Questions sent to the Company's dedicated email address for the meeting will be entertained. He further explained that questions not answered during the meeting will be replied to by the Office of the Corporate Secretary. Thereafter, the full agenda of the meeting was presented, and referred to the Information Statement for the rationale for each agenda item.

3. APPROVAL OF PREVIOUS MEETING MINUTES

The Chairman proceeded to the next item on the Agenda, the Approval of the Minutes of the Annual Stockholders' Meeting held on July 09, 2019, copies of the said Minutes have been attached to the Information Statement and made available for viewing in the Company's website.

Upon motion duly made and seconded, there being no objections, the stockholders approved the following resolution:

Stockholders Resolution No. 2020-07-09-01
***Approval of the Minutes of the Annual Stockholders’
Meeting held on 09 July 2019***

“**RESOLVED**, as it is hereby resolved, that the stockholders approve the Minutes of the Annual Stockholders’ Meeting held on July 09, 2019.”

4. APPROVAL OF ANNUAL REPORT FOR 2019

Ms. Aurora T. Calderon, a Director and the Treasurer of the Company, was requested by the Chairman to deliver the Annual Report for 2019. A copy of the report is attached hereto as Annex “D”.

Thereafter, the Chairman opened the floor for questions from the stockholders.

Mr. Hector Sanvictores asked, via email sent to the designated email address for the meeting, when the Company expects recovery from the COVID-19 pandemic to take place. Mr. Ramon S. Ang, the President and Chief Executive Officer of the Company, responded that unfortunately, no one is in a position to predict with precision when full recovery can take place, and that the world awaits for the discovery of the medicine for COVID-19 which will help economies all over to recuperate.

There being no other questions from the stockholders, upon motion duly made and seconded, and there being no objections, the stockholders unanimously resolved to close the open forum and approve the following resolution:

Stockholders Resolution No. 2020-07-09-02
Approval of the 2019 Annual Report of the Company

“**RESOLVED**, as it is hereby resolved, that the stockholders approve and ratify the Annual Report of the Company for 2019, as presented.”

5. RATIFICATION OF ALL ACTS OF THE BOARD OF DIRECTORS AND CORPORATE OFFICERS

The Chairman announced that the next item on the Agenda is the Ratification of All Acts and Proceedings of the Board of Directors and the Corporate Officers since the Annual Stockholders’ Meeting held on July 09, 2019 until the date of the meeting. The Chairman referred to the following list of acts and proceedings for ratification by the stockholders.

- a. Approval of:
 - i. Minutes of Previous Meetings
 - ii. Quarterly reports on the financial performance and financial position of the Company
 - iii. Declarations of cash dividends to shareholders owning preferred shares
 - iv. Approval of the Company Policy on Material Related Party Transactions
 - v. Designation of Additional Authorized Representatives for Filings with the Philippine Competition Commission

- vi. 2019 Audited Financial Statements of the Company and the Annual Report (SEC Form 17-A)
 - vii. Self-rating forms of the Board Committees, the Board of Directors, and Management
 - viii. 2020 Internal Audit Plan and Certification on Sound Internal Audit, Control and Compliance System
 - ix. Approval of the record date and other significant dates and details for the 2020 Annual Stockholders' Meeting, approval of the holding thereof by remote communication, and approval of the procedure and details for attending, participating and casting of votes in the 2020 Annual Stockholders' Meeting
 - x. Report on the nominations and qualifications of the nominees for election to the Board
 - xi. Approval of the appointment of the external auditors for 2020, for approval and ratification by stockholders in the 2020 Annual Stockholders' Meeting
 - xii. Report on the Corporate Governance Committee validation of the results of the 2019 Performance Assessments of the Board Committees, the Board of Directors, and Management
 - xiii. Report on the filing of the 2019 Integrated Annual Corporate Governance Report (I-ACGR) of the Company
 - xiv. Report on the Filing of the Sustainability Report of the Company under Amended Annual Report (SEC Form 17-A)
- b. Election of lead independent director and officers;
 - c. Appointment of the Members of the Board Committees;
 - d. Designation of depository banks, appointment of authorized signatories for banking and other corporate transactions and approval of their signing authorities and limits.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2020-07-09-03
Ratification of All Acts of the Board of Directors and Corporate Officers since July 09, 2019 to July 09, 2020
since July 09, 2019 to July 09, 2020

“**RESOLVED**, that all acts, resolutions and proceedings of the Board of Directors and corporate officers of the Company since the Annual Meeting of the Stockholders on July 09, 2019 until today, July 09, 2020, as set forth in the minutes of the meetings of the Board of Directors be, as they hereby are, approved, confirmed and ratified.”

6. APPOINTMENT OF EXTERNAL AUDITORS

The Chairman proceeded to the nomination for the position of external auditors of the Company for fiscal year 2019. Justice Minita V. Chico-Nazario, an Independent Director and Chairperson of the Audit and Risk Oversight Committee, reported to the stockholders that the Audit and Risk Oversight Committee and the Board, after evaluation, recommend the appointment of the accounting firm of R.G. Manabat & Co. as the external auditors of the Company for the fiscal year 2020.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2020-07-09-04
Appointment of External Auditors for 2020

“**RESOLVED**, as it is hereby resolved, that R. G. Manabat & Co. be, as they hereby are, appointed as the external auditors of the Company for the fiscal year 2020.”

7. ELECTION OF DIRECTORS

The Corporate Secretary, upon request of the Chairman, presented to the stockholders the names of the nominees for election to the Board of Directors, namely:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Consuelo M. Ynares-Santiago - Independent Director
6. Minita V. Chico-Nazario - Independent Director
7. Teresita J. Leonardo-De Castro - Independent Director

The Chairman explained that the Information Statement circulated to the stockholders the names of the nominees for election as independent directors of the Board of Directors were mentioned and they are Justices Consuelo M. Ynares-Santiago, Minita V. Chico-Nazario, and Teresita J. Leonardo-De Castro. The Chairman likewise informed the stockholders that the Board has identified the named independent directors to comply with the mandatory requirements imposed by the Securities and Exchange Commission.

Considering that: (a) the number of directors to be elected is seven (7) and there are only seven (7) nominees, and (b) as earlier reported by the Corporate Secretary, proxies for 89.50% of the total outstanding common and preferred shares of the Company have been issued by the stockholders in favor of the Chairman authorizing him to vote for the approval of all corporate acts which require the conformity of the stockholders as provided in the agenda for this meeting, which includes the election of directors, a motion was made that all votes of stockholders present and represented by proxies issued in favor of the Chairman be distributed among the seven (7) nominees and recorded accordingly, and as such, all the seven (7) nominees be considered unanimously elected as directors of the Company for the ensuing year, until their successors are elected and qualified.

Upon motion duly made and seconded, there being no objections, the stockholders unanimously approved the following resolution:

Stockholders Resolution No. 2020-07-09-05

Election of Directors

“**RESOLVED**, that the following be, as they hereby are, elected as members of the Board of Directors of the Company, to serve as such for the ensuing year, until their successors are duly elected and qualified:

1. Iñigo U. Zobel
2. Ramon S. Ang
3. Ferdinand K. Constantino
4. Aurora T. Calderon
5. Consuelo M. Ynares-Santiago - Independent Director
6. Minita V. Chico-Nazario - Independent Director
7. Teresita J. Leonardo-De Castro - Independent Director”

On behalf of Management, the Chairman welcomed the newly-elected members of the Board of Directors and thanked the stockholders for their vote of confidence.

8. ADJOURNMENT

The Chairman inquired if any of the stockholders have any matter to present in the assembly.

There being no other matters to be discussed, the meeting was adjourned upon motion duly made and seconded. The Chairman thanked all stockholders present for attending the meeting.

A T T E S T:

IÑIGO U. ZOBEL
Chairman

VIRGILIO S. JACINTO
Corporate Secretary

List of Stockholders Present

Top Frontier Investment Holdings, Inc.
Annual Stockholders' Meeting
July 9, 2020

WITH PROXY ISSUED IN FAVOR OF THE CHAIRMAN	No. of Common Shares	No. of Preferred Shares	Total Shares	% out of total O/S Common SH	% out of total O/S Capital Stock
Iñigo Zobel	199,601,517	0	199,601,517	59.96%	59.62%
Master Year Limited	49,799,800	0	49,799,800	14.96%	14.87%
Privado Holdings, Corp.	36,858,551	0	36,858,551	11.07%	11.01%
Ramon S. Ang	75,887	0	75,887	0.02%	0.02%
Millennium Energy, Inc.	1,080,738	0	1,080,738	0.32%	0.32%
Marine Shore Investment Holdings, Inc.	258,767	0	258,767	0.08%	0.08%
Columbus Capitana Corporation	239,233	0	239,233	0.07%	0.07%
Q-Tech Alliance Holdings, Inc.	45,600	0	45,600	0.01%	0.01%
San Miguel Corporation	2,561,068	1,904,540	4,465,608	0.77%	1.33%
Retirement Plans:					
SMC-RDBP	139	0	139	0.00%	0.00%
San Miguel Corporation Retirement Plan - STP	1,500	0	1,500	0.00%	0.00%
San Miguel Corporation Retirement Plan (lodged)	1,913,608	0	1,913,608	0.57%	0.57%
San Miguel Corporation Retirement Plan - STP (lodged)	194,229	0	194,229	0.06%	0.06%
SMFI Retirement Plan (lodged)	1,282,869	0	1,282,869	0.39%	0.38%
SMB Retirement Plan (lodged)	1,863,814	0	1,863,814	0.56%	0.56%
SMYPC Retirement Plan (lodged)	927,260	0	927,260	0.28%	0.28%
GSMI Retirement Plan (lodged)	5,260	0	5,260	0.00%	0.00%
Banks:					
HSBC	93,984	0	93,984	0.03%	0.03%
SCB	12,955	0	12,955	0.00%	0.00%
Citibank	884,465	0	884,465	0.27%	0.26%
Aurora T. Calderon	2,360	0	2,360	0.00%	0.00%
Ferdinand K. Constantino	14,850	0	14,850	0.00%	0.00%
Virgilio S. Jacinto	2,562	0	2,562	0.00%	0.00%
Bella Navarra	10,260	0	10,260	0.00%	0.00%
Irene Cipriano	1,000	0	1,000	0.00%	0.00%
TOTAL	297,732,276	1,904,540	299,636,816	89.44%	89.50%
WITH BALLOT					
Deutsche Bank (ballot)	218,838	0	218,838	0.07%	0.07%
Consuelo Ynares-Santiago (ballot)	100	0	100	0.00%	0.00%
TOTAL	218,938	0	218,938	0.07%	0.07%
GRAND TOTAL	297,951,214	1,904,540	299,855,754	89.51%	89.57%
TOTAL OUTSTANDING SHARES	332,886,167	1,904,540	334,790,707		

Voting Results

Election of the Board of Directors		
NO.	NOMINEE	TOTAL
1	IÑIGO U. ZOBEL	297,951,214
2	RAMON S. ANG	297,948,274
3	FERDINAND K. CONSTANTINO	297,947,814
4	AURORA T. CALDERON	297,921,814
5	CONSUELO M. YNARES-SANTIAGO	297,947,814
6	MINITA V. CHICO-NAZARIO	297,951,214
7	TERESITA J. LEONARDO-DE CASTRO	297,951,214
	TOTAL	2,085,619,358

RESOLUTION	FOR		AGAINST		ABSTAIN		TOTAL	
Approval of the Minutes of the Annual Stockholders' Meeting held on July 09, 2019	297,951,214	100%	0	0%	0	0%	297,951,214	100%
Approval of the Annual Report of the Company for year ended December 31, 2019	297,827,289	99.96%	0	0%	123,925	0.04%	297,951,214	100%
Ratification of all the acts and proceedings of the Board of Directors and Officers since the 2019 Annual Stockholders' Meeting to date	297,827,289	99.96%	0	0%	123,925	0.04%	297,951,214	100%
Appointment of R.G. Manabat & Co. as external auditors of the Company for fiscal year 2020	297,951,214	100%	0	0%	0	0%	297,951,214	100%

Total Number of Shares Present in Person, by Ballot, and by Proxy: Common - 297,951,214

Voting Procedure

1. Under Voting and Voting Procedure (page 6 of the Information Statement)

"A stockholder may vote the number of shares held in his/her/its name in the Company's stock and transfer books as of June 11, 2020. Holders of common shares have the right to vote on all matters requiring stockholders' approval, and are entitled to vote at the meeting by submission of the ballots or proxies in accordance with the procedure set out herein. The voting and voting procedure are detailed in pages 8 and 36 of this Information Statement."

2. Under Voting Securities and Principal Holders Thereof (page 8 of the Information Statement)

"The record date with respect to the 2020 Annual Stockholders' Meeting is June 11, 2020. Only stockholders of record at the close of business on June 11, 2020 will be entitled to vote at the meeting.

Holders of common shares have the right to vote on all matters requiring stockholders' approval.

Holders of the preferred shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code, namely: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease, exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution. None of the foregoing matters forms part of the Agenda of the 2020 Annual Stockholders' Meeting.

Every stockholder entitled to vote shall be entitled to one (1) vote, in person, *in absentia*, or by proxy, for each share of stock registered in his/her/its name in the books of the Company, for each matter presented for the approval of the stockholders (except for election of directors, which is set out in the immediately succeeding paragraph).

With respect to the election of directors, in accordance with Section 23 of the Revised Corporation Code, a stockholder may vote the number of common shares held in his/her/its name in the Company's stock and transfer book as of June 11, 2020, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of his/her/its common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder for the election of directors of the Company is computed as follows: number of common shares held on record as of record date multiplied by seven (7) directors.

3. Under Voting Procedures (page 36 of the Information Statement)

“In all proposals or matters for approval (except for election of directors), each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one (1) vote. In case of election of directors, cumulative voting as set out in page 8 of this Definitive Information Statement shall be adopted. For the election of directors, the seven (7) nominees with the greatest number of votes will be elected as directors. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretary with the assistance of the independent auditors and the Company's stock transfer agent.

Considering that the 2020 Annual Stockholders' Meeting will be held via remote communication, votes of all stockholders on any or all of the proposals or matters submitted at the meeting can be cast through ballots or proxies submitted on or before June 25, 2020 by email sent to ASM2020@topfrontier.com.ph or by mail sent to the SMC Stock Transfer Service Corporation office located at the 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City 1550, Metro Manila, Philippines. Ballots and proxies need not be notarized. A sample of the ballot and proxy included in this Information Statement. Validation of ballots and proxies will be on July 02, 2020 at 2:00 p.m. at the SMC Stock Transfer Service Corporation office located at the above-mentioned address.

For an individual, his/her ballot or proxy must be accompanied by a scanned copy of his/her valid government-issued identification card with photo for verification of identity. For a corporation, its ballot or proxy must be accompanied by its Corporate Secretary's certification setting the representative's authority to vote and/or represent the corporation in the meeting, where applicable. Hard copies of the ballots and proxies and notarized Secretary's Certificates are requested to be sent to the SMC Stock Transfer Service Corporation office located at the above-mentioned address within a reasonable time after the resumption of regular business operations.”

Annual Report for 2019

Good afternoon, fellow stockholders.

Allow me to begin by offering my condolences to the family of Mr. Eduardo Cojuangco Jr. The news of his demise came as a shock to us. He was a well-loved and respected leader who exemplified our core value of *malasakit* and guided us in making it a part of our everyday lives. We will miss him greatly.

COVID-19 is a crisis unlike any other in recent times, one that has no playbook for us to live by. While some companies are holding up just fine, others continue to fight for survival and quite a number have already failed. Every company faced its own unique set of challenges. Even your company was not immune to the effects of this pandemic.

But what was clear to us from the very start was that this pandemic is an opportunity for us to reaffirm the reason for our being, what our businesses stand for and why they matter.

As the parent company of San Miguel Corporation, we are especially proud of the contributions it has made to the fight against COVID-19 and how it was able to balance the need to both look inward and outward to a wider society, and how it can be part of the solution to the shared challenges we are facing.

What it has done from day 1 of the pandemic to this day was nothing short of amazing as it took care of communities and businesses closest to its home, those that depend on the company to survive and stay afloat in these trying times.

San Miguel’s response has been among, if not, the most aggressive, as it spent over P13 billion in terms of food and disinfectant alcohol donations to vulnerable communities, medical equipment and PPEs, free toll and fuel for medical health workers, building of emergency quarantine facilities for COVID-19 patients, assistance to the agriculture sector, advance tax and other payments to government and most especially continuing compensation for 70,000 in its workforce.

It is a privilege to be part of these response and recovery initiatives that made a difference in the lives of so many people.

We want to assure you, our shareholders, that your company continues to build for long-term value and that we will emerge from this crisis in a much stronger position.

Allow me to report to you our 2019 financial results:

Consolidated revenues reached P1.02 trillion, reflecting strong revenues from most of our major businesses.

Our Beer, Spirits, and Power businesses performed very well, allowing us to end the year with a consolidated operating income of P114.1 billion and a consolidated net income of P48.6 billion. EBITDA of P160.3 billion was 3% higher than in 2018.

The challenges facing the oil industry affected the revenue contribution of Petron.

San Miguel Foods, meanwhile, was hit by volatile input costs and supply glut in poultry. Complicating matters is the African Swine Flu that adversely affected hog and feed volumes. Thankfully, we have seen marked improvement in the performance of San Miguel Foods in the first quarter of 2020.

Clariden Holdings, Inc., our other subsidiary managing our mining assets, continues to undertake mine site activities, including in-fill drilling, that are consistent with existing mining laws and mindful of our environmental and social impact. We will continue to make sure that our country benefits from our mineral wealth as we adopt measures to deliver a more inclusive and responsible mining sector.

The disruptions resulting from the lockdown in Luzon and much of the Philippines adversely affected Top Frontier's first-quarter 2020 performance.

While the pandemic has brought about significant changes in the business landscape, it has also brought out the best in our Company.

San Miguel has quickly pivoted to support our government, medical practitioners, and the Filipino people, during this crisis. It produced disinfectant alcohol for donation to hospitals and communities. It donated flour, bread and other essential food items to respond to food security challenges during the pandemic. Moreover, its continuing donations of medical equipment, COVID-19 RT-PCR testing machines, ventilators, quarantine facilities, and PPEs substantially augmented Government efforts to limit and contain the ill-effects of COVID-19.

Through its San Miguel Foundation, it has also opened its first COVID-19 RT-PCR testing laboratory capable of processing 4,000 tests per day and expandable to 12,000. This laboratory will test all 70,000 employees and third-party providers to continue producing essential goods and providing services in the safest possible way.

As we transition to our next normal, I am confident that Top Frontier will recover its footing sooner than expected.

Our supply chains are more resilient. We are updating our operating and selling models to make these more robust to adapt to the new business environment. Our cost base remains appropriate and manageable. We are also increasing efficiencies and rationalizing spending while working to protect our cash flow and are pro-actively manage our working capital.

With these, we are pushing through with our major expansion initiatives and infrastructure projects, including our plan to build the airport. By leading the way and balancing the needs of the economy with public safety in mind, we hope to be able help restore public confidence in the economy and get our nation back on its feet. *Sama-sama babangon tayo.*

Thank you and keep safe, everyone.