



# **SAN MIGUEL CORPORATION**

40 San Miguel Avenue Mandaluyong City, Philippines 1550

**Shelf Registration in the Philippines of**

**Fixed Rate Bonds in the aggregate principal amount of up to ₱50,000,000,000.00**

**to be offered within a period of three (3) years  
at an Issue Price of 100% of Face Value**

to be listed and traded through the Philippine Dealing & Exchange Corp.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

This Prospectus is dated **April 23, 2021**.

**SAN MIGUEL CORPORATION**  
**40 San Miguel Avenue Mandaluyong City 1550 Philippines**  
**Telephone number (632) 8632-3000**  
<http://www.sanmiguel.com.ph>

This Prospectus (“**this Prospectus**” and, as the context may require, the term includes the relevant Offer Supplement) relates to the shelf registration and each offer and sale in the Philippines within the Shelf Period as defined below (each an “**Offer**”) of fixed rate bonds (the “**Bonds**”) with an aggregate principal amount of up to Fifty Billion Pesos (₱50,000,000,000.00) by San Miguel Corporation (“**SMC**”, the “**Company**”, or the “**Issuer**”) a corporation duly organized and existing under Philippine law. The Bonds will be issued at face-value (“**Issue Price**”) and listed and traded through the Philippine Dealing & Exchange Corp. (“**PDEX**”).

The Bonds shall be issued in tranches within a period of three (3) years from the effective date of the Registration Statement of the Bonds, subject to applicable regulations (the “**Shelf Period**”). The offer and sale of the Bonds, including the terms and conditions for each tranche shall be at the sole discretion of the Company. The specific terms of the Bonds for each tranche will be determined by the Company considering the prevailing market conditions and shall be provided in a supplement to be circulated at the time of the offer of the relevant tranche (the “**Offer Supplement**”).

For each tranche of the Bonds, the Company shall distribute an Offer Supplement along with this Prospectus. The relevant Offer Supplement will contain the final terms for an offer of the Bonds and must be read in conjunction with this Prospectus and other Bond Agreements (as defined in the relevant Offer Supplement). Full information on the Issuer and such offer of the Bonds is only available through this Prospectus, the relevant Offer Supplement, and the other Bond Agreements. All information contained in this Prospectus is deemed incorporated by reference in an Offer Supplement.

The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.

The Company may declare dividends at the discretion of the Board of Directors of the Company (the “**Board of Directors**”) and will depend upon the future results of operations and general financial condition and capital requirements of SMC; its ability to receive dividends and other distributions and payments from its subsidiaries; foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations (both at the parent and subsidiary levels); and other factors that the Board of Directors may deem relevant.

On March 11, 2021, the Board of Directors authorized the sale and offer of the Bonds under such terms and conditions as the management of SMC may deem advantageous to it. On April 23, 2021, the Company filed an application with the Securities and Exchange Commission (“**SEC**”) to register the Bonds under the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (“**SRC**”). On [•], the SEC issued an order rendering the Registration Statement effective, and a corresponding permit to offer securities for sale covering the initial tranche of the Bonds. Any subsequent offering under the relevant rules requires the submission by the Company of relevant updates and amendments to the Registration Statement and the issuance of the corresponding permit to sell by the SEC. As a listed company, SMC regularly disseminates such updates and information in its disclosures to the SEC and The Philippine Stock Exchange, Inc. (“**PSE**”).

On [•], the Company filed an application for the listing of the Bonds in the PDEX to register the Bonds. However, there is no assurance that such a listing will be achieved either before or after the relevant issue date of the Bonds being offered at a particular time or whether such a listing will materially affect the liquidity of the Bonds on the secondary market. Such listing will be subject to the Company’s execution of a listing agreement with PDEX that may require the Company to make certain disclosures, undertakings, and payments on an ongoing basis.

The Bonds will be offered to the public through underwriters that may be engaged by the Company for each Offer (the “**Underwriters**”).

The Company reserves the right to withdraw any offer and sale of the Bonds at any time, and the Underwriters reserve the right to reject any application to purchase the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. If an offer of the Bonds is withdrawn or discontinued, the Company shall subsequently notify the SEC and, as applicable, the PDEX. The Underwriters, any participating underwriter, co-manager, and selling agent for any offer of the Bonds may acquire for their own account a portion of the Bonds.

No person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Company or any of the Underwriters.

The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any securities of the Company in any jurisdiction, to or from any person whom it is unlawful to make such offer in such jurisdiction.

The price of securities, such as the Bonds, can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. An investment in the Bonds described in this Prospectus involves a certain degree of risk. A prospective purchaser of the Bonds should carefully consider several risk factors relating to the Company's business and operations, risks relating to the Philippines and risks relating to the Bonds, as set out in "*Risk Factors*" found on page 26 of this Prospectus, in addition to the other information contained in this Prospectus, in deciding whether to invest in the Bonds. The risk disclosure discussion does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities.

Unless otherwise stated, the information contained in this Prospectus has been supplied by the Company. The Company (which has taken all reasonable care to ensure that such is the case) confirms that the information contained in this Prospectus is correct, and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect.

Unless otherwise indicated, all information in the Prospectus is as of the date hereof. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Company and its subsidiaries since such date. Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information, and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts, and market research, while believed to be reliable, have not been independently verified. The Company does not make any representation, undertaking or other assurance as to the accuracy or completeness of such information or that any projections will be achieved, or in relation to any other matter, information, opinion or statements in relation to the Offer. Any reliance placed on any projections or forecasts is a matter of commercial judgment. Certain agreements are referred to in this Prospectus in summary form. Any such summary does not purport to be a complete or accurate description of the agreement and prospective investors are expected to independently review such agreements in full.

This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Underwriters or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Bonds. Each person contemplating an investment in the Bonds should make his own investigation and analysis of the creditworthiness of SMC and his own determination of the suitability of any such investment. The risk disclosure herein does not purport to disclose all the risks and other significant aspects of investing in the Bonds. A person contemplating an investment in the Bonds should seek professional advice if he or she is uncertain of, or has not understood any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially those high-risk securities. Investing in the Bonds involves a higher degree of risk compared to debt instruments. For a discussion of certain factors to be considered in respect of an investment in the Bonds, see the section on "*Risk Factors*" starting on page 26.

The Company owns land as identified in the section on “*Description of Property*” on page 170. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens. For as long as the percentage of Filipino ownership of the capital stock of the Company is at least 60.0% of (i) the total shares outstanding and voting, and (ii) the total shares outstanding, whether or not entitled to vote, the corporation shall be considered as a 100.0% Filipino-owned corporation.

A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE ISSUE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PRELIMINARY PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.

SAN MIGUEL CORPORATION

By:

  
**RAMON S. ANG**  
President and Chief Operating Officer

REPUBLIC OF THE PHILIPPINES)  
MANDALUYONG CITY, METRO MANILA) SS.

SUBSCRIBED AND SWORN to before me this APR 23 2021 in Mandaluyong City, affiant exhibiting to me his Passport No. P2247867A expiring on May 21, 2029 as competent evidence of identity.

Doc No.: 100 ;  
Page No.: 2 ;  
Book No.: VIII ;  
Series of 2021.



  
**PAULA KATHERINA A. GAN**  
Commission No. 0308-19  
Notary Public for Mandaluyong City  
Until June 30, 2021  
(S.C. Resolution dated December 1, 2020)  
SMC, 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

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## FORWARD-LOOKING STATEMENTS

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This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors which may cause actual results, performance or achievements of SMC to be materially different from any future results; and
- performance or achievements expressed or implied by forward-looking statements.

The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “may”, “plan”, “intend”, “will”, “shall”, “should”, “would” and similar words identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. Statements in this Prospectus as to the opinions, beliefs and intentions of the Issuer are the opinions, beliefs and intentions of the management of SMC as to such matters at the date of this Prospectus, although the Issuer can give no assurance that such opinions or beliefs will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section “Risk Factors” and elsewhere, important factors that could cause actual results to differ materially from the expectation of the Issuer. All subsequent written and oral forward-looking statements attributable to either the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by cautionary statements. Such forward-looking statements are based on assumptions regarding the present and future business strategies and the environment in which SMC will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the ability of SMC to successfully implement its strategies;
- the ability of SMC to anticipate and respond to consumer trends;
- changes in availability of raw materials used in the production processes of SMC and its subsidiaries (the “SMC Group”);
- the ability of the SMC Group to successfully manage its growth;
- the condition and changes in the Philippines, Asian or global economies;
- any future political instability in the Philippines, Asia or other regions;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. Dollar and other currencies;
- changes in government regulations, including tax laws, or licensing requirements in the Philippines, Asia or other regions; and
- competition in the beer, liquor, food, packaging, power, fuel and oil, cement, and infrastructure industries in the Philippines and globally.

Additional factors that could cause actual results, performance or achievements of SMC to differ materially include, but are not limited to, those disclosed under “*Risk Factors*” and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. SMC and the Underwriters expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the expectations of SMC with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based. In light of these risks, uncertainties and assumptions associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur in the way SMC expects, or at all. SMC’s actual results could differ substantially from those anticipated in SMC’s forward-looking statements. Investors should not place undue reliance on any forward-looking information.

## DEFINITION OF TERMS

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In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

|                               |                                                                                                                                                                                                                                                                                                              |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AAIBV.....                    | Atlantic Aurum Investments B.V. including, as the context requires, its subsidiaries                                                                                                                                                                                                                         |
| AAIPC.....                    | Atlantic Aurum Investments Philippines Corporation <sup>1</sup>                                                                                                                                                                                                                                              |
| AHC.....                      | Angat Hydropower Corporation                                                                                                                                                                                                                                                                                 |
| AHEPP.....                    | Angat Hydroelectric Power Plant                                                                                                                                                                                                                                                                              |
| ALECO.....                    | Albay Electric Cooperative                                                                                                                                                                                                                                                                                   |
| APEC.....                     | Albay Power and Energy Corp.                                                                                                                                                                                                                                                                                 |
| Applicable Law.....           | Any statute, law, regulation, ordinance, rule, judgment, order, decree, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority. |
| Application to Purchase ..... | The application form accomplished and submitted by an Applicant for the purchase of a specified amount of Bonds, together with all the other requirements set forth in such application form                                                                                                                 |
| ASEAN.....                    | The Association of Southeast Asian Nations, consisting of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam                                                                                                                                                 |
| Bayan .....                   | PT Bara Tabang                                                                                                                                                                                                                                                                                               |
| BESS.....                     | Battery Energy Storage System                                                                                                                                                                                                                                                                                |
| BIR.....                      | Bureau of Internal Revenue of the Philippines                                                                                                                                                                                                                                                                |
| Board of Directors.....       | Board of Directors of SMC                                                                                                                                                                                                                                                                                    |
| Bonanza Energy.....           | Bonanza Energy Resources, Inc                                                                                                                                                                                                                                                                                |
| BGTOM.....                    | Build-Gradual Transfer-Operate-Maintain                                                                                                                                                                                                                                                                      |
| BOT.....                      | Build-Operate-Transfer                                                                                                                                                                                                                                                                                       |
| BankCom.....                  | Bank of Commerce                                                                                                                                                                                                                                                                                             |
| BPG.....                      | Business Procurement Group                                                                                                                                                                                                                                                                                   |
| BTO.....                      | Build-Transfer-Operate                                                                                                                                                                                                                                                                                       |
| BSP.....                      | Bangko Sentral ng Pilipinas                                                                                                                                                                                                                                                                                  |
| Business Day.....             | A day other than a public non-working holiday, Saturday or Sunday on which the facilities of the Philippine                                                                                                                                                                                                  |

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<sup>1</sup> On April 5, 2021, the SEC approved the change in corporate name of AAIPC to SMC Tollways Corporation.



|                         |                                                                                                     |
|-------------------------|-----------------------------------------------------------------------------------------------------|
|                         | banking system are open and available for clearing, and banks are open for business in Metro Manila |
| CAGR.....               | Compounded annual growth rate                                                                       |
| CAI.....                | Can Asia, Inc.                                                                                      |
| Can-Pack.....           | Can-Pack S.A.                                                                                       |
| CCEC.....               | Citra Central Expressway Corp. <sup>2</sup>                                                         |
| Clean Air Act.....      | The Philippine Clean Air Act of 1999                                                                |
| Clean Water Act.....    | The Philippine Clean Water Act of 2004                                                              |
| CLPPC.....              | Central Luzon Premiere Power Corp.                                                                  |
| COC.....                | Coal Operating Contract                                                                             |
| CTCII.....              | Cypress Tree Capital Investments, Inc.                                                              |
| DA.....                 | Department of Agriculture of the Philippines                                                        |
| Daguma.....             | Daguma Agro Minerals, Inc.                                                                          |
| DENR.....               | Department of Environment and Natural Resources of the Philippines                                  |
| Distribution Code ..... | The Philippine Distribution Code                                                                    |
| DOE.....                | Department of Energy of the Philippines                                                             |
| DOH.....                | Department of Health of the Philippines, including the FDA                                          |
| DOTr.....               | Department of Transportation of the Philippines                                                     |
| DPWH.....               | Department of Public Works and Highways of the Philippines                                          |
| DTI.....                | Department of Trade and Industry of the Philippines                                                 |
| EBITDA.....             | Earnings before interest, taxes, depreciation and amortizations                                     |
| ECA.....                | Energy conversion agreement                                                                         |
| ECC.....                | Environmental Compliance Certificate                                                                |
| EIS.....                | Environmental Impact Statement                                                                      |
| EERI.....               | Excellent Energy Resources, Inc.                                                                    |
| EIU.....                | The Economic Intelligence Unit                                                                      |
| EMEPMI.....             | ExxonMobil Exploration and Production Malaysia, Inc.                                                |

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<sup>2</sup> On March 3, 2021, the SEC approved the change in corporate name of CCEC to SMC Skyway Stage 3 Corporation.

|                        |                                                                                                                        |
|------------------------|------------------------------------------------------------------------------------------------------------------------|
| EPIRA.....             | Electric Power Industry Reform Act of 2001                                                                             |
| EPC.....               | Engineering, Procurement, and Construction                                                                             |
| ERC.....               | Energy Regulatory Commission of the Philippines                                                                        |
| FDA.....               | The Food and Drug Administration of the Philippines                                                                    |
| FDDC Act.....          | The Philippine Foods, Drugs and Devices, and Cosmetics Act, as amended by the Food and Drug Administration Act of 2009 |
| FIA.....               | Foreign Investment Act of 1991                                                                                         |
| Fuso.....              | Fuso Machine & Mold Mfg. Co. Ltd.                                                                                      |
| GDP.....               | Gross Domestic Product                                                                                                 |
| Government.....        | the Government of the Republic of the Philippines                                                                      |
| Grid Code.....         | The Philippine Grid Code                                                                                               |
| Group.....             | At any time, the Company and its Subsidiaries at such time.                                                            |
| GSMI.....              | Ginebra San Miguel Inc., including as the context requires, its subsidiaries                                           |
| GWh.....               | Giga-watt hours                                                                                                        |
| HELE Technologies..... | High Efficiency Low Emission Technologies                                                                              |
| Hormel.....            | Hormel Foods International Corporation                                                                                 |
| IBI.....               | Iconic Beverages, Inc.                                                                                                 |
| IEMOP.....             | Independent Electricity Market Operator of the Philippines Inc.                                                        |
| IPP.....               | Independent Power Producer                                                                                             |
| IPPA.....              | Independent Power Producer Administrator                                                                               |
| ISO.....               | International Organization for Standardization                                                                         |
| kcal.....              | Kilocalorie                                                                                                            |
| K-Water.....           | Korea Water Resources Corporation                                                                                      |
| KEILCO.....            | KEPCO Ilijan Corporation                                                                                               |
| Kirin.....             | Kirin Holdings Company, Limited                                                                                        |
| KLIA.....              | Kuala Lumpur International Airport                                                                                     |
| KLIA 2.....            | Kuala Lumpur International Airport Terminal 2                                                                          |
| KWPP.....              | KWPP Holdings Corporation                                                                                              |
| LCWDC.....             | Luzon Clean water Development Corporation                                                                              |

|                                      |                                                                                                                                                                                                   |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| LGU.....                             | Local government unit                                                                                                                                                                             |
| Livestock and Poultry Feeds Act..... | The Philippine Livestock and Poultry Feeds Act, including its implementing rules and regulations                                                                                                  |
| LPG.....                             | Liquefied petroleum gas                                                                                                                                                                           |
| Magnolia.....                        | Magnolia Inc.                                                                                                                                                                                     |
| MARINA.....                          | Maritime Industry Authority of the Philippines                                                                                                                                                    |
| MNHPI.....                           | Manila North Harbour Port, Inc.                                                                                                                                                                   |
| MPPCL.....                           | Masinloc Power Partners Co. Ltd                                                                                                                                                                   |
| Meat Inspection Code.....            | The Meat Inspection Code of the Philippines                                                                                                                                                       |
| Meralco.....                         | Manila Electric Company                                                                                                                                                                           |
| MIA.....                             | Manila International Airport                                                                                                                                                                      |
| Mincorr.....                         | Mindanao Corrugated Fibreboard, Inc                                                                                                                                                               |
| MPGC.....                            | Mariveles Power Generation Corporation                                                                                                                                                            |
| MRT-7.....                           | Metro Rail Transit Line 7                                                                                                                                                                         |
| MT.....                              | Metric Tons                                                                                                                                                                                       |
| MW.....                              | Mega-watt                                                                                                                                                                                         |
| NAIAx.....                           | NAIA Expressway                                                                                                                                                                                   |
| NCR .....                            | National Capital Region of the Philippines                                                                                                                                                        |
| NGCP.....                            | National Grid Corporation of the Philippines                                                                                                                                                      |
| NPC.....                             | National Power Corporation of the Philippines                                                                                                                                                     |
| NPD.....                             | New Product Development                                                                                                                                                                           |
| NWRB.....                            | National Water Resources Board                                                                                                                                                                    |
| NYG.....                             | Nihon Yamamura Glass Company, Ltd.                                                                                                                                                                |
| Offer Supplement.....                | The document which sets out the terms and conditions for each tranche of the Bonds                                                                                                                |
| Oil Deregulation Act.....            | Republic Act No. 8479, otherwise known as the Downstream Oil Industry Deregulation Act of 1998                                                                                                    |
| OEDC.....                            | Olongapo Electricity Distribution Corp.                                                                                                                                                           |
| Packaging Group .....                | San Miguel Yamamura Packaging Corporation, San Miguel Yamamura Packaging International Limited and its subsidiaries, San Miguel Yamamura Asia Corporation and Mindanao Corrugated Fibreboard Inc. |
| PDTC.....                            | The Philippine Depository & Trust Corporation                                                                                                                                                     |
| PDEx.....                            | The Philippine Dealing and Exchange Corporation                                                                                                                                                   |

|                               |                                                                                                                                                                                                                                      |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| PEMC.....                     | Philippine Electricity Market Corporation                                                                                                                                                                                            |
| Peso or ₱ or PHP .....        | Philippine Peso, the lawful currency of the Republic of the Philippines                                                                                                                                                              |
| PET.....                      | Polyethylene Terephthalate                                                                                                                                                                                                           |
| Petron.....                   | Petron Corporation including, as the context requires, its subsidiaries                                                                                                                                                              |
| PFRS.....                     | Philippine Financial Reporting Standards                                                                                                                                                                                             |
| Philippines.....              | Republic of the Philippines                                                                                                                                                                                                          |
| PME.....                      | Palm Oil Methyl Ester                                                                                                                                                                                                                |
| PNCC.....                     | Philippine National Construction Company                                                                                                                                                                                             |
| PPA.....                      | Power purchase agreement                                                                                                                                                                                                             |
| PPP.....                      | Public-Private Partnership                                                                                                                                                                                                           |
| Price Act.....                | Republic Act No. 7851, otherwise known as the Price Act                                                                                                                                                                              |
| Privado.....                  | Privado Holdings Corp.                                                                                                                                                                                                               |
| Prospectus.....               | The prospectus dated [•] and any amendments, supplements and addenda thereto for the offer and sale to the public of the Bonds within the RS Effectivity Period. As the context may require, the term includes the Offer Supplement. |
| PSA.....                      | Power Supply Agreement                                                                                                                                                                                                               |
| PSALM.....                    | Power Sector Assets and Liabilities Management Corporation                                                                                                                                                                           |
| PSC.....                      | Power supply contract                                                                                                                                                                                                                |
| PSE.....                      | The Philippine Stock Exchange, Inc.                                                                                                                                                                                                  |
| PT KPC.....                   | PT Kaltim Prima Coal                                                                                                                                                                                                                 |
| PTSMPL.....                   | PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah)                                                                                                                                                               |
| Purefoods-Hormel.....         | The Purefoods-Hormel Company, Inc.                                                                                                                                                                                                   |
| PVEI.....                     | PowerOne Ventures Energy Inc.                                                                                                                                                                                                        |
| RCOA.....                     | Retail Competition and Open Access                                                                                                                                                                                                   |
| Registration Statement.....   | The registration statement filed with the SEC in connection with the offer and sale to the public of the Bonds                                                                                                                       |
| RES.....                      | Retail Electricity Supplier                                                                                                                                                                                                          |
| Revised Corporation Code..... | Republic Act No. 11032, otherwise known as the Revised Corporation Code of the Philippines                                                                                                                                           |

|                                                         |                                                                                                                                                                                                                  |
|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RGB                                                     | Returnable Glass Bottle                                                                                                                                                                                          |
| RMP-2.....                                              | Petron Bataan Refinery Master Plan Phase -2 Upgrade                                                                                                                                                              |
| RON.....                                                | Research Octane Number                                                                                                                                                                                           |
| RS Effectivity Period.....                              | Subject to applicable regulations, a period of three years from the effective date of the Registration Statement within which the Bonds under shelf registration may be offered and sold in one or more tranches |
| S&P.....                                                | Standard & Poor's Rating Services                                                                                                                                                                                |
| S3HC.....                                               | Stage 3 Connector Tollways Holdings Corp.                                                                                                                                                                        |
| San Miguel Foods .....                                  | San Miguel Foods, Inc.                                                                                                                                                                                           |
| Saudi Aramco.....                                       | Saudi Arabian Oil Company                                                                                                                                                                                        |
| SBM.....                                                | Single Buoy Mooring                                                                                                                                                                                              |
| SCPC.....                                               | SMC Consolidated Power Corporation                                                                                                                                                                               |
| SEC.....                                                | Securities and Exchange Commission of the Philippines                                                                                                                                                            |
| Shelf Period.....                                       | A period of three (3) years from the date of effectivity of the Registration Statement for the Bonds, during which Bonds may be offered and sold to the public                                                   |
| SIDC.....                                               | Star Infrastructure Development Corporation                                                                                                                                                                      |
| SLEX.....                                               | South Luzon Expressway                                                                                                                                                                                           |
| SMB.....                                                | San Miguel Brewery Inc., including, as the context requires, its subsidiaries                                                                                                                                    |
| SMBIL.....                                              | San Miguel Brewing International, Ltd.                                                                                                                                                                           |
| SMC, the Company, the Parent Company or the Issuer..... | San Miguel Corporation, a corporation incorporated under the laws of the Republic of the Philippines                                                                                                             |
| SMC Global Power.....                                   | SMC Global Power Holdings Corp. including, as the context requires, its subsidiaries                                                                                                                             |
| SMC Group.....                                          | SMC and its subsidiaries                                                                                                                                                                                         |
| SMCI.....                                               | SMC Infraventures Inc.                                                                                                                                                                                           |
| SMCPC.....                                              | San Miguel Consolidated Power Corporation                                                                                                                                                                        |
| SMEC.....                                               | San Miguel Energy Corporation                                                                                                                                                                                    |
| SMELC.....                                              | San Miguel Electric Corp.                                                                                                                                                                                        |
| SMFB.....                                               | San Miguel Food and Beverage, Inc. (formerly San Miguel Pure Foods Company, Inc.), including, as the context requires, its subsidiaries                                                                          |
| SMHC.....                                               | San Miguel Holdings Corp., including, as the context requires, its subsidiaries                                                                                                                                  |
| SMPI.....                                               | San Miguel Properties, Inc., including, as the context                                                                                                                                                           |

|                             |                                                                                                                                                                                                              |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                             | requires, its subsidiaries                                                                                                                                                                                   |
| SMYAC.....                  | San Miguel Yamamura Asia Corporation                                                                                                                                                                         |
| SMYPC.....                  | San Miguel Yamamura Packaging Corporation, including, as the context requires, its subsidiaries                                                                                                              |
| SMYPIL.....                 | San Miguel Yamamura Packaging International Limited                                                                                                                                                          |
| SPDC.....                   | Strategic Power Dev. Corp.                                                                                                                                                                                   |
| SPI.....                    | SMC Powergen Inc.                                                                                                                                                                                            |
| SPPC.....                   | South Premiere Power Corp.                                                                                                                                                                                   |
| SRC.....                    | Securities Regulation Code of the Philippines                                                                                                                                                                |
| SRPC.....                   | San Roque Power Corporation                                                                                                                                                                                  |
| SSS.....                    | Social Security System of the Philippines                                                                                                                                                                    |
| STAR.....                   | Southern Tagalog Arterial Road                                                                                                                                                                               |
| Subsidiary.....             | An entity of which a Person has direct or indirect control or owns directly or indirectly more than 50% of the voting capital or similar right of ownership.                                                 |
| Sultan Energy.....          | Sultan Energy Philippines Corp.                                                                                                                                                                              |
| SYFMC.....                  | SMC Yamamura Fuso Molds Corporation                                                                                                                                                                          |
| TADHC.....                  | Trans Aire Development Holdings Corp.                                                                                                                                                                        |
| Tax Code.....               | The Philippine National Internal Revenue Code of 1997, as amended                                                                                                                                            |
| Top Frontier.....           | Top Frontier Investment Holdings, Inc.                                                                                                                                                                       |
| TPLEX.....                  | Tarlac–Pangasinan–La Union Expressway                                                                                                                                                                        |
| TransCo.....                | National Transmission Corporation                                                                                                                                                                            |
| TRB.....                    | Toll Regulatory Board of the Philippines                                                                                                                                                                     |
| TSML.....                   | Thai San Miguel Liquor Co. Ltd.                                                                                                                                                                              |
| TUA.....                    | Terminal Use Agreement                                                                                                                                                                                       |
| Underwriters.....           | Underwriters that may be engaged by the Company for each tranche of the Offer                                                                                                                                |
| Underwriting Agreement..... | The Underwriting Agreement that the Company will enter into with Underwriters for each tranche of the Offer, and its annexes and attachments, as may be modified, supplemented or amended from time to time. |
| Universal LRT.....          | Universal LRT Corporation (BVI) Limited                                                                                                                                                                      |
| USD, U.S.\$.....            | U.S. Dollars, the legal currency of the United States of America                                                                                                                                             |
| VAT.....                    | Value-added tax                                                                                                                                                                                              |

|             |                                              |
|-------------|----------------------------------------------|
| Vertex..... | Vertex Tollways Devt. Inc.                   |
| WESM.....   | Philippine Wholesale Electricity Spot Market |

# EXECUTIVE SUMMARY

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*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the appendices of this Prospectus.*

*Prospective investors should read this entire Prospectus fully and carefully, including the section on “Risk Factors”. In case of any inconsistency between this summary and the more detailed information in this Prospectus, then the more detailed portions, as the case may be, shall at all times prevail.*

## **Brief Background on the Company**

San Miguel Corporation (“SMC”, the “**Company**”, or the “**Issuer**”), together with its subsidiaries (collectively with the Company 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 GDP in 2020.<sup>3</sup>

Originally founded in 1890 as a single product brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property development and leasing, cement, car distributorship, and banking services. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc.) on November 5, 1948 and as of December 29, 2020, SMC had a market capitalization of ₱305,377 million, with a common share price of ₱128.10.

SMC, through its subsidiaries and affiliates, has become a market leader in its businesses in the Philippines with an extensive portfolio of products that include beer, spirits, non-alcoholic beverages, 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.

Since adopting its business diversification program in 2007, SMC has channelled 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 SMC to access capital, present different growth opportunities, and mitigate the impact of downturns and business cycles. The consolidated sales, gross profit and EBITDA of SMC for the year ended December 31, 2020 were ₱725,797 million, ₱149,348 million and ₱125,929 million, respectively.

SMC’s five key business groups, most of which are market leaders in their respective industries, include the following (1) food and beverage; (2) packaging; (3) fuel and oil; (4) energy; and (5) infrastructure. In addition, SMC has investments in other businesses, such as property development and leasing, cement, car distributorship, and banking services.

## **Food and Beverage**

On June 29, 2018, SMC completed the consolidation of its beer and non-alcoholic (“**NAB**”) businesses, spirits, and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“**SMFB**”, formerly San Miguel Pure Foods Company, Inc., and such consolidation, the “**SMFB Consolidation**”).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets, and sells 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 and *Vino Kulafu* for Chinese wine, *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*

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<sup>3</sup> Based on data from the SMC consolidated revenues in 2020 divided by the Philippines’ total revenue sourced from the Philippine Statistics Authority.



*Crème* for margarine, and *B-Meg* for animal feeds.

SMFB has three primary operating divisions—(i) beer and NAB, (ii) spirits, and (iii) food. 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. (“**San Miguel Foods**”), Magnolia, Inc., 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.

SMFB is listed on the PSE under stock code “FB” and as of December 29, 2020, had a market capitalization of ₱395,918 million, with a common share price of ₱67.00. As of December 31, 2020, SMC’s ownership interest in SMFB was 88.76%.

## Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits, and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation (“**SMYPC**”) and its subsidiaries, San Miguel Yamamura Packaging International Limited (“**SMYPIL**”) and its subsidiaries, SMC Yamamura Fuso Molds Corporation (“**SYFMC**”), Can Asia, Inc. (“**CAI**”), Mindanao Corrugated Fireboard, Inc. (“**Mincorr**”) and Wine Brothers Philippines Corporation (collectively, the “**Packaging Group**”). The Packaging Group has one of the largest packaging operations in the Philippines, producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum cans, paper cartons, flexibles packaging, and other packaging products and services such as beverage toll filling for aluminum cans, PET and glass bottles as well as logistics services. As of December 31, 2020, the Packaging Group has 36 packaging facilities located across the Asia-Pacific Region. These facilities are located in the Philippines (glass, molds for glass and plastics, metal, plastics, composite, paper, toll filling, and logistics services), in China (glass, plastic, and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (trading of packaging products, wine closures, wine filling facilities, retail/online packaging, cargo protection and materials handling) and New Zealand (trading and plastics). As of December 31, 2020, SMC’s ownership interest in SMYPC was 65.00%.

## Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a strong third player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), one of the most modernized in the region and the only one in the country, which the Company believes supplies approximately 30.0% of the country’s total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene, and propylene.

The common shares of Petron are listed on the PSE under stock code “PCOR”. The market capitalization of Petron was ₱37,407 million, with a common share price of ₱3.99, as of December 29, 2020. As of December 31, 2020, SMC’s direct and indirect ownership in Petron was 68.26%.

## Energy

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 more recently, battery energy storage systems (“**BESS**”). Based on the total installed generating capacities reported in ERC Resolution No. 05, Series of 2019 dated June 2019 (“**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity as of December 31, 2020 comprises approximately 20% of the National Grid, 27% of the Luzon Grid, and 8% of the Mindanao Grid. As of December 31, 2020, SMC’s ownership interest in SMC Global Power was 100.00%.

## 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. Currently operating toll roads include the South Luzon Expressway (“SLEX”), Skyway Stages 1, 2, and 3, the Southern Luzon Arterial Road tollway (“STAR”), the Tarlac-Pangasinan-La Union Expressway (“TPLEX”), and the Ninoy Aquino International Airport Expressway (“NAIAx”). The Skyway Stage 3 has been opened to motorists while awaiting formal toll operation permit from the Toll Regulatory Board (“TRB”). Ongoing projects include Skyway 4, the extension of SLEX – Toll Road 4 (“SLEX-TR4”), SLEX – Toll Road 5 (“SLEX-TR5”), Pasig River Expressway (“PAREX”), the Mass Rail Transit Line 7 (“MRT-7”), and Manila International Airport (“MIA”). SMHC 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. As of December 31, 2020, SMC’s ownership interest in SMHC was 100%.

## Others

Other investments of SMC include property development and leasing, through San Miguel Properties, Inc. (“SMPI”), cement through Northern Cement Corporation (“NCC”), car distributorship through SMC Asia Car Distributors Corp., and banking services through Bank of Commerce (“BankCom”).

## Strengths and Strategies

### Strengths

SMC believes that its principal strengths include the following:

- Robust and diversified platform with broad exposure to the growth of the Philippine economy;
- Market leading positions in key Philippine industries;
- Operating businesses provide sustainable stream of income and cash flows;
- Well-positioned for significant future growth;
- Synergies across businesses; and
- Cohesive and experienced management team.

### Strategies of SMC

The principal strategies of SMC include the following:

- Enhance value of established businesses;
- Prudently diversify into industries that underpin the development and growth of the Philippine economy;
- Identify and pursue synergies across businesses through vertical integration, platform matching, and channel management;
- Invest in and develop businesses with leading market positions;
- Strengthen sustainable business strategies in all its operations; and
- Adopt world-leading practices and joint development of businesses.

## Risks of Investing

Prospective investors should also consider the following risks of investing in the Offer:

1. Macroeconomic risks, including the current and immediate political and economic factors in the Philippines and the experience of the country with natural catastrophes, as a principal risk for investing in general;
2. Risks relating to SMC, its subsidiaries and their business and operations; and
3. The absence of a liquid secondary market, volatility and other risks relating to the Offer.

(For a more detailed discussion, see “Risk Factors” on page 26)

## Use of Proceeds

The intended use of proceeds for each offer of the Bonds being offered shall be set out in the relevant Offer Supplement under “*Use of Proceeds*”.

## Offer Supplement

For each tranche of the Offer, the Company shall distribute a supplement (the “**Offer Supplement**”) which shall be disclosed to the public through the filing with the SEC and the PDEx, and made available for download from the website of SMC, specifically at <http://www.sanmiguel.com.ph>.

The Offer Supplement shall contain the following information:

- (a) description of each Offer, timetable, offer size of the specific offering, the applicable interest rate and the mode of settlement of the offering;
- (b) capital structure of the Company after the offering;
- (c) any changes to the risk factors and tax consequences of the offering;
- (d) description of the specific distribution and underwriting arrangements; and
- (e) amount and use of proceeds.

## Plan of Distribution

SMC plans to issue the Bonds to institutional and retail investors through a public offering to be conducted through the Underwriters (for a more detailed discussion, see the relevant Offer Supplement).

## Timetable

The indicative timetable of the Shelf Registration is expected to be as follows:

| Particulars                                               | Dates                          |
|-----------------------------------------------------------|--------------------------------|
| Filing of the Initial Registration Statement with the SEC | April 23, 2021                 |
| Receipt of SEC Pre-Effective Approval                     | [May 31, 2021]                 |
| Shelf Registration Period                                 | [May 31, 2021 to May 31, 2024] |

After the Registration Statement of the Company for the Bonds becomes effective, the Company will secure a permit to sell from the SEC for each tranche of the Offer.

## SUMMARY OF THE OFFER

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A discussion containing the “*Summary of the Offer*” shall be set out in the relevant Offer Supplement. However, any such summary should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus and such Offer Supplement, including, but not limited to, the discussion on the “*Description of the Offer Bonds*” and “*Plan of Distribution*,” and agreements executed in connection with a particular offer of Bonds as a whole. Such overview may not contain all of the information that prospective investors should consider before deciding to invest in the Bonds. Accordingly, any decision by a prospective investor to invest in the Bonds should be based on a consideration of this Prospectus, the relevant Offer Supplement, and agreements executed in connection with a particular offer of Bonds as a whole.

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## SUMMARY OF FINANCIAL INFORMATION

*Prospective purchasers of the Bonds should read the summary financial data below together with the financial statements, including the notes thereto, included in this Prospectus and “Management's Discussion and Analysis of Results of Operations and Financial Condition”. The summary financial data for the three (3) years ended December 31, 2020, 2019, and 2018 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix “A” of this Prospectus. The detailed financial information for the three (3) years ended December 31, 2020, 2019, and 2018 are found on Appendix “A” of this Prospectus.*

The summary financial and operating information of SMC presented below as of and for the years ended December 31, 2020, 2019, and 2018 were derived from the consolidated financial statements of SMC, audited by R.G. Manabat & Co. (formerly Manabat Sanagustin & Co.), and prepared in compliance with the Philippine Financial Reporting Standards (“PFRS”). The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendix “A” of this Prospectus. The historical financial condition, results of operations, and cash flows of SMC are not a guarantee of its future operating and financial performance.

### Consolidated Statement of Income Data

|                                                                        | For the years ended<br>December 31, |           |          |
|------------------------------------------------------------------------|-------------------------------------|-----------|----------|
|                                                                        | 2018                                | 2019      | 2020     |
|                                                                        | (Audited)<br>(in millions)          |           |          |
|                                                                        | P                                   | P         | P        |
| Sales .....                                                            | 1,024,943                           | 1,020,502 | 725,797  |
| Cost of sales .....                                                    | 825,748                             | 818,815   | 576,449  |
| Gross Profit .....                                                     | 199,195                             | 201,687   | 149,348  |
| Selling and Administrative expenses .                                  | (82,110)                            | (85,972)  | (77,872) |
| Interest expense and other financing charges                           | (45,496)                            | (56,019)  | (52,035) |
| Interest income .....                                                  | 7,192                               | 10,675    | 6,182    |
| Equity in net earnings (losses) of associates and joint ventures ..... | (289)                               | 105       | 417      |
| Gain (loss) on sale of investments and property and equipment .....    | 252                                 | (237)     | (491)    |
| Other income (charges) – net .....                                     | (5,628)                             | 6,848     | 11,861   |
| Income before income tax .....                                         | 73,116                              | 77,087    | 37,410   |
| Income tax expense .....                                               | 24,468                              | 28,513    | 15,531   |
| <b>Net income</b> .....                                                | 48,648                              | 48,574    | 21,879   |
| <b>Attributable to:</b>                                                |                                     |           |          |
| Equity holders of SMC .....                                            | 23,077                              | 21,329    | 2,973    |
| Non-controlling interests.....                                         | 25,571                              | 27,245    | 18,906   |
|                                                                        | 48,648                              | 48,574    | 21,879   |
| Earnings (loss) per common share attributable to equity holders of SMC |                                     |           |          |
| Basic and Diluted .....                                                | 6.61                                | 5.93      | (1.66)   |

|                                                                      | As of December 31, |                  |                  |
|----------------------------------------------------------------------|--------------------|------------------|------------------|
|                                                                      | 2018               | 2019             | 2020             |
|                                                                      | (Audited)          |                  |                  |
|                                                                      | (in millions)      |                  |                  |
|                                                                      | ₱                  | ₱                | ₱                |
| <b>ASSETS</b>                                                        |                    |                  |                  |
| <b>Current Assets</b>                                                |                    |                  |                  |
| Cash and cash equivalents .....                                      | 243,150            | 286,457          | 347,209          |
| Trade and other receivables - net.....                               | 129,893            | 136,488          | 124,369          |
| Inventories .....                                                    | 118,946            | 127,463          | 102,822          |
| Current portion of biological assets — net.....                      | 4,245              | 4,151            | 3,401            |
| Prepaid expenses and other current assets.....                       | 92,043             | 86,585           | 94,610           |
| <b>Total Current Assets</b> .....                                    | <u>588,277</u>     | <u>641,144</u>   | <u>672,411</u>   |
| <b>Noncurrent Assets</b>                                             |                    |                  |                  |
| Investments and advances — net .....                                 | 50,519             | 52,861           | 50,495           |
| Investment in equity and debt instruments.....                       | 42,126             | 42,055           | 41,766           |
| Property, plant and equipment — net.....                             | 594,372            | 463,614          | 511,624          |
| Rights-of-use assets — net.....                                      | -                  | 173,604          | 169,208          |
| Investment property — net.....                                       | 31,829             | 51,779           | 60,678           |
| Biological assets — net of current portion.....                      | 2,844              | 2,808            | 2,352            |
| Goodwill — net .....                                                 | 130,852            | 130,073          | 129,733          |
| Other intangible assets — net.....                                   | 146,608            | 149,014          | 169,532          |
| Deferred tax assets.....                                             | 19,249             | 18,052           | 20,946           |
| Other noncurrent assets — net .....                                  | 69,966             | 92,730           | 83,462           |
| <b>Total Noncurrent Assets</b> .....                                 | <u>1,088,365</u>   | <u>1,176,590</u> | <u>1,239,796</u> |
| <b>Total assets</b> .....                                            | <u>1,676,642</u>   | <u>1,817,734</u> | <u>1,912,207</u> |
| <b>LIABILITIES AND EQUITY</b>                                        |                    |                  |                  |
| <b>Current Liabilities</b>                                           |                    |                  |                  |
| Loans payable .....                                                  | 184,024            | 169,492          | 140,645          |
| Accounts payable and accrued expenses .....                          | 149,764            | 176,037          | 153,249          |
| Lease liabilities — current portion .....                            | 19,699             | 24,979           | 25,759           |
| Income and other taxes payable .....                                 | 19,901             | 21,185           | 20,998           |
| Dividends payable .....                                              | 4,042              | 4,116            | 4,231            |
| Current maturities of long-term debt — net of debt issue costs..     | 55,697             | 43,808           | 74,502           |
| <b>Total Current Liabilities</b> .....                               | <u>433,127</u>     | <u>439,617</u>   | <u>419,384</u>   |
| <b>Noncurrent Liabilities</b>                                        |                    |                  |                  |
| Long-term debt — net of current maturities and debt issue costs..... | 561,918            | 638,996          | 692,407          |
| Deferred tax liabilities .....                                       | 22,899             | 25,265           | 27,749           |
| Lease liabilities — net of current portion.....                      | 122,367            | 117,269          | 91,278           |
| Other noncurrent liabilities — net of current portion.....           | 24,384             | 22,192           | 26,301           |
| <b>Total Noncurrent Liabilities</b> .....                            | <u>731,568</u>     | <u>803,722</u>   | <u>837,735</u>   |
| <b>Total Liabilities</b> .....                                       | <u>1,164,695</u>   | <u>1,243,339</u> | <u>1,257,119</u> |
| <b>Equity</b>                                                        |                    |                  |                  |
| <b>Equity Attributable to Equity Holders of SMC</b>                  |                    |                  |                  |
| Capital stock — common .....                                         | 16,443             | 16,443           | 16,443           |
| Capital stock — preferred .....                                      | 10,187             | 10,187           | 10,187           |
| Additional paid-in capital.....                                      | 177,938            | 177,938          | 177,719          |
| Capital Securities.....                                              | —                  | —                | 28,171           |
| Equity reserves .....                                                | 21,513             | 14,390           | 10,131           |
| Retained earnings:                                                   |                    |                  |                  |
| Appropriated.....                                                    | 72,820             | 56,689           | 60,155           |
| Unappropriated.....                                                  | 148,345            | 173,092          | 162,204          |
| Treasury stock .....                                                 | (109,501)          | (116,283)        | (110,146)        |
| <b>Total Equity Attributable to Equity Holders of SMC</b> .....      | <u>337,745</u>     | <u>332,456</u>   | <u>354,864</u>   |
| Non-controlling interest .....                                       | <u>174,202</u>     | <u>241,939</u>   | <u>300,224</u>   |

| <b>As of December 31,</b> |                  |                  |                  |
|---------------------------|------------------|------------------|------------------|
|                           | <b>2018</b>      | <b>2019</b>      | <b>2020</b>      |
| <b>(Audited)</b>          |                  |                  |                  |
| <b>(in millions)</b>      |                  |                  |                  |
|                           | <b>₱</b>         | <b>₱</b>         | <b>₱</b>         |
| <b>Total Equity .....</b> | <b>511,947</b>   | <b>574,395</b>   | <b>655,088</b>   |
|                           | <b>1,676,642</b> | <b>1,817,734</b> | <b>1,912,207</b> |

#### **Consolidated Statement of Cash Flows Data**

| <b>For the years ended</b>                                          |             |             |             |
|---------------------------------------------------------------------|-------------|-------------|-------------|
| <b>December 31,</b>                                                 |             |             |             |
|                                                                     | <b>2018</b> | <b>2019</b> | <b>2020</b> |
| <b>(Audited)</b>                                                    |             |             |             |
| <b>(in millions)</b>                                                |             |             |             |
|                                                                     | <b>₱</b>    | <b>₱</b>    | <b>₱</b>    |
| Net cash provided by (used in):                                     |             |             |             |
| Operating activities .....                                          | 59,772      | 92,195      | 50,854      |
| Investing activities .....                                          | (196,313)   | (112,040)   | (82,629)    |
| Financing activities .....                                          | 174,015     | 66,756      | 101,979     |
| Effect of exchange rates changes in cash and cash equivalents ..... | (397)       | (3,604)     | (9,452)     |
| Net increase in cash and cash equivalents                           | 37,077      | 43,307      | 60,752      |
| Cash and cash equivalents at beginning of period                    | 206,073     | 243,150     | 286,457     |
| Cash and cash equivalents at end of period                          | 243,150     | 286,457     | 347,209     |

## **CAPITALIZATION**

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The unaudited consolidated short-term and long-term debt and capitalization of SMC as of the relevant period shall be set out in the relevant Offer Supplement.



## DESCRIPTION OF THE BONDS

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The detailed terms and conditions of each Offer shall be set out in the relevant Offer Supplement under “*Description of the Offer Bonds*”. However, any such discussion under “*Description of the Offer Bonds*” does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws, and resolutions of the Board of Directors of SMC, the information contained in this Prospectus, the relevant Offer Supplement, and other agreements relevant to each Offer and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective Bondholders must make their own appraisal of the Issuer and the offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in each Offer. They must not rely solely on any statement or on the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor’s independent evaluation and analysis. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds being offered.

# RISK FACTORS

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## General Risk Warning

*An investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of the Bonds. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the business, financial condition, and results of operations and cause the market price of the Bonds to decline. All or part of an investment in the Bonds could be lost. Investors deal in a range of investments each of which may carry a different level of risk.*

*The means by which we intend to address the risk factors discussed herein are principally presented under “The Company” beginning on page 69, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 197, and “Management” on page 183 of this Prospectus.*

*The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to our business, results of operations, financial condition, and prospects*

## Prudence Required

*The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the Bonds and SMC from the SEC and PSE.*

## Professional Advice

*An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high-risk securities.*

## Risk Factors

*This Prospectus contains forward-looking statements that involve risks and uncertainties. SMC adopts what it considers conservative financial and operational controls and policies to manage its business risks. The actual results may differ significantly from the results discussed in the forward-looking statements. See section “Forward-Looking Statements” of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of SMC, in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.*

*Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the Bonds. The business, financial condition, and results of operations of the Company could be materially and adversely affected by any of these risk factors.*

## RISKS RELATING TO SMC AND THE SMC GROUP

### The COVID-19 Pandemic

The COVID-19 pandemic, or the future outbreak of any other highly infectious or contagious diseases, could materially and adversely affect the Company’s business, results of operations, and financial condition. Further, the continuing impact of the COVID-19 pandemic is highly unpredictable and uncertain, and has and will continue to cause disruptions in the Philippine and global economy and financial markets, as well as the Company’s financial performance, among others.

The COVID-19 pandemic has created significant public health concerns as well as economic disruption, uncertainty, and volatility, all of which have affected and may continue to affect the Company's businesses. While the Company has implemented numerous initiatives to mitigate the adverse effects of the pandemic, the duration and extent of these effects are beyond the control of the Company. As of the date of this Prospectus, quarantine restrictions are still in place in the Philippines and may be made more stringent as COVID-19 cases continue to rise.

Due to numerous uncertainties and factors surrounding the pandemic that is beyond the Company's control, it may be difficult to predict the pandemic's long-term bearing on the Company, its businesses, results of operations, cash flows, and financial condition. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there are subsequent waves or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which the Company operates;
- the extent and timeliness of the national and local government's response to the pandemic, including but not limited to, quarantine restrictions as well as vaccination procurement and deployment programs;
- restrictions on business operations, including complete or partial closure of offices, plants, and other facilities;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, the Company's personnel and the Company's ability to maintain staffing needs to effectively sustain its operations;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- impact—financial, operational or otherwise—on the Company's supply chain, including suppliers and third-party contractors;
- volatility in the credit and financial markets during and after the pandemic;
- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or the Company's actions in response thereto; and
- the pace of recovery considering the rebound in consumer confidence, driven by government and economic response.

The above factors and uncertainties (including others which the Company is not currently aware), may result in adverse effects to the Company's businesses, results of operations, cash flows, and financial condition due to, among other factors:

- decline in consumer demand due to the general decline in business activity and more permanent behavioral and work policy changes, such as increased use of online channels for shopping, payments and social gatherings, and wider acceptance of work-from-home arrangements;
- further destabilization of the markets and decline in business activity negatively impacting customers' ability to pay for the Company's products and services;
- government moratoriums or other regulatory or legislative actions that limit changes in pricing;
- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;
- delay or inability to receive the necessary permits for the Company's development projects due to delays or shutdowns of government operations;
- increased volatility in commodity markets and foreign exchange;

- deterioration of economic conditions, demand, and other related factors resulting in impairments to goodwill or long-lived assets; and
- delay or inability in obtaining regulatory actions and outcomes that could be material to our business.

The extent to which the COVID-19 pandemic will continue to impact the Company will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, in the Philippines and internationally, by governments, central banks, healthcare providers, health system participants, other businesses, and individuals, all of which are highly uncertain and unpredictable. To the extent the COVID-19 pandemic adversely affects the business and financial results of the Company, it may also have the effect of heightening many of the other risks described in this Prospectus.

### ***Digital commerce platforms***

The importance of online selling platforms increased significantly during the COVID-19 pandemic. Heightened demand for online groceries was observed as consumers chose to stay at home and avoid brick-and-mortar stores in the short to medium term as the country continues to grapple with the COVID-19 pandemic.

To improve product availability and accessibility during the COVID-19 pandemic, SMFB launched a new ordering system, <https://themall.sanmiguel.com.ph>, and has utilized the country's top e-commerce sites, including Lazada, Zalora, Grab Mart, Shopee, and Panda Mart, to sell its products.

The increased use by customers of e-commerce platforms could make SMFB increasingly reliant on digital ordering and e-payments as a sales channel. These digital ordering and payment platforms may be compromised or interrupted by power loss, system failures, user errors, other forms of sabotage and fraud or other force majeure. The execution of SMFB's growth strategy moving forward will depend, in part, on such initiatives utilizing digital solutions, gathering and leveraging data to enhance operations, and improving the customer experience on multiple platforms. Additionally, implementing, maintaining and upgrading digital solutions to meet and serve consumer demands and support operations may require significant investment.

### ***Changes in consumer preferences and purchasing power***

The SMC Group's ability to successfully develop and launch new products, which is a key part of its strategy, as well as the ability to maintain or increase demand for existing products, depend on the acceptance of these products by consumers, as well as consumers' purchasing power. Consumer preferences may shift for a variety of reasons, including changes in international, national, regional and local economic conditions; culinary, demographic and social trends; and leisure activity patterns or consumer lifestyle choices.

There can be no assurance that any new products introduced in the future will generate the estimated consumer interest, projected revenues or expected market share. If the Company's marketing strategies are not successful or do not respond timely or effectively to changes in consumer preferences, large expenses may be incurred without the benefit of higher revenues and the Company's businesses and prospects could be materially and adversely affected.

In addition, as the Company continues to take advantage of the "premiumization" trend by strengthening the focus on its higher margin premium and upscale brands, particularly in the food and beverage business and in the Greater Manila and key cities nationwide, the Company's business and prospects become more closely related to, and affected by, changes in consumer purchasing power and lifestyles.

Moreover, any decrease in consumers' purchasing power or disposable income levels could have a material adverse effect on the Company's financial condition and results of operations.

### ***Diversification of businesses and acquisition of new businesses***

The traditional core businesses of SMC comprise beverage, food, and packaging products. Since embarking on its diversification strategy in 2007, SMC has expanded its businesses to include fuel and oil, energy, and infrastructure, among others. SMC implemented this strategy through a series of acquisitions and investments and intends to continue to pursue this diversification strategy through further acquisitions and investments to enhance its product and brand portfolio, and realize other strategic and cost benefits.

The diversification strategy of SMC involves a number of risks and challenges, including substantial financial investments, the diversion of management's time and resources, and managing a broader scope of businesses and risks inherent in making new acquisitions and investments. Growth through acquisitions involves business risks, including unforeseen contingent risks, latent business liabilities, and other challenges that may only become apparent after the acquisition is finalized, such as the successful integration and management of the acquired business by SMC, retention of key personnel, joint sales and marketing efforts, and management of a larger business. In addition, there is no assurance that SMC will achieve the anticipated benefits, expected returns, strategic benefits or synergies of an acquisition, or that SMC will be as successful in new businesses as it has been in its traditional core businesses. Failure to successfully implement its diversification strategy, to integrate acquired businesses or to realize the anticipated benefits of acquisitions or investments could materially and adversely affect the business, financial condition, results of operations, and prospects of SMC.

#### ***Ability of the largest shareholders to influence corporate actions***

Top Frontier Investment Holdings, Inc. ("**Top Frontier**") and Privado Holdings, Corp. ("**Privado**") are the major shareholders of SMC and hold approximately 65.99% and 15.67% of the common shares of SMC, respectively, and collectively control approximately 81.66% of the voting rights of the common shares of SMC, as of December 31, 2020. Top Frontier and Privado are able to influence the businesses of SMC through their ability to vote on corporate actions that require Board and shareholder approval. Top Frontier and Privado are not obligated to provide SMC with financial support. The interests of Top Frontier and Privado may differ from those of the holders of the Bonds or of the other shareholders of the Company, which may, as a result, adversely affect the interests such holders. There can be no assurance that any conflicts of interest between and among the holders of Bonds, Top Frontier, Privado, or other shareholders of the Company will be resolved in favour of such holders, or that Top Frontier and Privado will influence SMC to pursue actions that are in the best interests of such holders.

#### ***Possible disagreements among joint venture partners of SMC***

Some of the businesses of SMC are conducted through joint ventures with other partners, including Kirin Holdings Company Limited for beer, Hormel Netherlands B.V. for processed meats, Korea-Water Resources Corporation ("**K-Water**") for the Angat Hydroelectric Power Project ("**AHEPP**"), and Nihon Yamamura Glass Co. Ltd. ("**NYG**"), Fuso Machine & Mold Manufacturing Co. Ltd. ("**Fuso**") and Can Pack SA ("**Can-Pack**") for packaging products. Cooperation among partners on business decisions is crucial to the sound operation and financial success of these joint venture companies. While the SMC Group believes that it maintains good relationships with its partners, there can be no assurance that these relationships will be sustained in the future or that problems will not develop. For example, such partners may be unable or unwilling to fulfill their obligations, take actions contrary to SMC's policies or objectives, or experience financial difficulties. If any of these events occur, the businesses of these subsidiaries could be severely disrupted, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

#### ***Dependence on trademarks and proprietary rights***

The SMC Group uses various brand names and trademarks, including *San Miguel*, *Ginebra San Miguel*, *Purefoods*, *Magnolia*, *Star*, *Dari Crème*, *B-Meg*, *La Pacita*, *Petron*, *Gasul*, and other intellectual property rights to prepare, package, advertise, distribute, and sell its products for its various businesses. Protection of those brands and intellectual property rights is important to maintaining the distinctive corporate and market identities of the SMC Group. If third parties sell products which use counterfeit versions or otherwise look confusingly similar to SMC Group brands, consumers may mistake products of the Company with those that they consider to be inferior. This could negatively affect the brand image and sales of the SMC Group, particularly in the beverage and food businesses. In addition, the SMC Group has been granted numerous trademark registrations covering its brands and products, and has filed, and expects to continue to file, trademark applications seeking to protect newly developed brands and products.

There is no assurance that third parties will not challenge, violate or attempt to infringe any existing or future trademarks issued to, or licensed by, the SMC Group. Any failure to protect the proprietary rights of the SMC Group could severely harm its competitive position, which could materially and adversely affect the business, financial condition, results of operations, and prospects, as well as the reputation, of the SMC Group. In addition, certain intellectual property rights used by the SMC Group are licensed and there is no assurance that the relevant licensors will agree to renew the licenses on terms acceptable to the SMC Group or at all. The failure to renew one or more of its material licenses could have a material adverse effect on the ability of the

SMC Group to market certain products and on the results of operations of the SMC Group.

### ***Availability of financing***

The expansion and growth plans of the SMC Group are expected to be funded through a combination of internally generated funds and external fund-raising activities, including debt and equity financing. The continued access of the SMC Group to debt and equity financing as sources of funding for new projects and acquisitions and for refinancing maturing debt is subject to many factors, including: (i) Philippine regulations limiting bank exposure to a single borrower or related group of borrowers; (ii) the compliance of SMC Group with existing debt covenants, which include debt-to-equity ratio and debt service coverage ratio covenants; (iii) the ability of the SMC Group to service new debt; and (iv) perceptions in the capital markets regarding the SMC Group and the industries in which it operates, and other factors, including general conditions in the debt and equity capital markets, which are outside of its control. Political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment could increase the cost of borrowing for the SMC Group or restrict its ability to obtain debt financing.

In addition, certain subsidiaries of SMC have significant finance lease obligations, long-term debt, and have issued perpetual capital securities.

As of December 31, 2020, the noncurrent liabilities of SMC included finance lease liabilities (net of current portion) of ₱91,278 million and long-term debt (net of current maturities and debt issue costs) of ₱692,407 million. For the same period, the current liabilities of SMC included accounts payable and accrued expenses of ₱153,249 million and finance lease liabilities (current portion) of ₱25,759 million.

There is no assurance that the SMC Group will be able to arrange and obtain additional financing when needed on commercially acceptable terms, or at all. Any additional debt financing may place restrictions on the Company, which may, among others:

- increase vulnerability to general adverse economic and industry conditions;
- limit ability to pursue growth plans;
- limit ability to raise additional financing and access credit or equity markets to satisfy its repayment obligations as they become due on favourable terms, or at all;
- require the Company to dedicate a substantial portion of cash flow from operations to payments on debt and capital securities, thereby reducing the availability of its cash flow to fund capital expenditure, working capital requirements, and other general corporate purposes; and/or
- limit its flexibility in planning for, or reacting to, changes in its business and its industry, either through the imposition of restrictive financial or operational covenants or otherwise.

Any inability of the SMC Group to obtain financing from banks and other financial institutions or from the capital markets would adversely affect the ability of the SMC Group to execute its expansion and growth strategies, as well as its financial condition and prospects.

### ***Potential changes in the legal and regulatory environment***

The businesses and operations of the SMC Group are subject to a number of national and local laws, rules, and regulations governing several different industries both in the Philippines and in other countries where it conducts its businesses. While each industry where the SMC Group operates has specific regulatory risks, the one common factor among these is that the political and regulatory landscape is continually evolving, and the SMC Group is required to continuously assess and ensure it is up to date with the demands of regulatory compliance. These laws and regulations require the Company to obtain and maintain several approvals, licenses, and permits from various entities such as the Philippine Food and Drug Association (“FDA”), the Philippine Department of Environment and Natural Resources (“DENR”), the Philippine Energy Regulatory Commission (the “ERC”), the Philippine Department of Trade and Industry (“DTI”), and the Philippine Department of Transportation (“DOT”), among others. Additionally, the Company may need to apply for more approvals, licenses, and permits and renew such approvals, licenses, and permits that may expire from time to time. In addition, there is no assurance that the Company will not be subject to new licensing requirements in the future.

or that it will be able to obtain and/or maintain such approvals, licenses or permits in a timely manner, or at all, or that it will not become subject to any regulatory action on account of not having obtained or renewed such approvals, licenses, and permits.

For example, SMC Global Power is subject to extensive regulation in the Philippines, including the Electric Power Industry Reform Act of 2001 (“**EPIRA**”). The enactment and implementation of any such bills or amendments to the EPIRA or other changes to Philippine laws and regulations relevant to the power industry, could have a material adverse effect on the business, financial condition, and results of operations of SMC Global Power, or on the rules and regulations governing the power industry, which could materially reduce sales and profitability. For the toll road business, the approval of the **TRB**, which is under DOTr, is necessary before a toll road concessionaire may implement a toll rate increase. In 2017, the TRB approved the toll rate increase for the STAR Tollway, of which 50% of the toll rate increase has been implemented in November 2017.

There can be no assurance that future laws, regulations and/or standards will not have a material adverse effect on the Company. In particular, the enactment and implementation of any such bills or amendments to the National Internal Revenue Code of 1997, as amended (the “**Philippine Tax Code**”), or other changes to Philippine laws and regulations relevant to the food and beverage, packaging, fuel and oil, power, and infrastructure industries, could increase the Company’s costs and have a material adverse effect on the business, financial condition, and results of operations. In addition, the Philippine government may periodically implement measures aimed at protecting consumers from rising prices, which may constrain the ability of the SMC Group to pass on price increases to distributors who sell its products, as well as its customers. Implementation of any such measures could have a material adverse effect on the business, financial condition, and results of operations of the SMC Group.

#### ***Increases and changes in applicable taxes, taxation laws and tax incentives***

The businesses and operations of the SMC Group are subject to various taxes, including value-added tax (“**VAT**”), excise taxes, duties, and tariffs in the Philippines and in other countries where it conducts its businesses. An increase in prices due to additional taxes may affect demand for its products in the Philippines.

For example, on September 9, 2019, the House of Representatives of the Philippines approved on third and final reading House Bill No. 304, or the Passive Income and Financial Intermediary Taxation Act (“**PIFITA**”). The PIFITA bill provides for, among others, a reduction in the tax rates on interest income from yield or any other monetary benefit earned or received from bank deposits, deposit substitutes, trust fund and similar arrangements from the current 20% to 15%, and an increase in the tax rate on cash and/or property dividends from the current 10% to 15%. In addition, the PIFITA bill provides for the rationalization of documentary stamp taxes. In the event the PIFITA bill is enacted, there may be additional costs that may be passed on to the Company. To date, the PIFITA Bill remains pending in Congress.

Increases in excise tax, changes in the applicable tax regime or other taxes and incentives to which the SMC Group is subject, or the imposition of new taxes on its operations or products, including those which may result from ongoing tax reforms by the Government may, (i) if passed on to the consumers by way of upward price adjustments, reduce consumption of SMC Group products, (ii) if prices remain unchanged, reduce margins, or (iii) if additional taxes are not fully passed on to the consumers, have both of the foregoing effects. Thus, as with other Philippine companies engaged in similar businesses, these increases and changes may materially and adversely affect the Company’s business, financial condition, and results of operations.

There can be no assurance that any pending tax legislation or future changes in the tax regime in the Philippines would not have a material and adverse effect on the Company’s business, financial condition, and results of operations.

#### ***Compliance with and renewal of licenses, permits and other authorizations***

The SMC Group is required to maintain licenses, permits, and other authorizations for the operations of its businesses, including business permits and permits concerning, for example, health and safety, and environmental standards. These licenses, permits, and other authorizations contain various requirements that must be complied with to keep the same valid. If the SMC Group fails to meet the terms and conditions of any of our licenses, permits or other authorizations necessary for operations, these operations may be suspended or terminated.

While the Company believes, to the best of its knowledge, that it has, at all relevant times, materially complied with all applicable laws, rules and regulations and has established a strong compliance culture to ensure that all requirements, permits, and approvals are obtained in a timely manner, there is no assurance that changes in laws, rules or regulations or the interpretation thereof by relevant government agencies, will not result in the Company having to incur substantial additional costs or capital expenditures to upgrade or supplement its existing facilities, or being subject to fines and penalties. The measures implemented by SMC to comply with laws and regulations may also be deemed insufficient by governmental authorities. If the Company fails to comply, or is deemed to be non-compliant with any applicable laws or regulations, the SMC Group may be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations. Potential liabilities for such non-compliance with the legal requirements or violations of prescribed standards and limits under these laws include administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, that could limit or affect its operations such as orders for the suspension and/or revocation of permits or licenses or suspension and/or closure of operations. There can be no assurance that the Company will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings, the costs of which could be material. In the event that the Company becomes involved in any future litigation or other proceedings or is subject to any adverse rulings or decisions, such events may materially and adversely affect its business, financial condition, and results of operations.

There can be no assurance that the SMC Group will continue to be able to renew the necessary licenses, permits, and other authorizations as necessary or that such licenses, permits, and other authorizations will not be revoked. If the Company is unable to obtain or renew them or are only able to do so on unfavourable terms, this could have an adverse effect on the Company's business, financial condition, and results of operations.

#### ***Exposure to safety, health and environmental costs and liabilities***

The businesses of the SMC Group span several industries and are subject to a variety of laws, rules and regulations that impose limitations, prohibitions, and standards with respect to health and safety, as well as the use, discharge, emission, treatment, release, disposal, and management of regulated materials and waste, and hazardous substances. Safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and it is possible that these laws and regulations will become significantly stricter in the future. The adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require additional capital expenditures or the incurrence of additional operating expenses in order to comply with such laws and to maintain current operations as well as any costs related to fines and penalties.

Furthermore, if the measures implemented by the SMC Group to comply with these laws and regulations are not deemed sufficient by governmental authorities, compliance costs may significantly exceed estimates. If the SMC Group fails to meet safety, health, and environmental requirements, it may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the SMC Group, as well as orders that could limit or halt its operations. There is no assurance that the SMC Group will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health, and environmental matters in the future, the costs of which could be material. Environmental compliance and remediation costs at sites on which its facilities are located and related litigation and other proceedings could materially and adversely affect the cash flow, results of operations, and financial condition of SMC.

#### ***Potential shortage of raw materials***

The products and businesses of the SMC Group, specifically, the beverage, food, packaging, fuel and oil, and energy businesses, depend on the availability of raw materials. Most of these raw materials, including some critical raw materials, are procured from third parties. These raw materials are subject to price volatility caused by a number of factors, including changes in global supply and demand, foreign exchange rate fluctuations, weather conditions, and governmental controls.

Movements in the supply of global crops may affect prices of raw materials, such as wheat, malted barley, adjuncts, and molasses for the beverage and food businesses.



The spirits business may face disruptions in the supply of major raw materials. For example, the current global focus on bioethanol fuel has contributed, and is expected to continue to contribute, to higher prices for molasses, which is a major raw material to produce spirits, as traders can choose to sell their molasses to producers of bioethanol rather than of beverage alcohol, thereby causing higher demand and cost.

Water is critical in the operations of the beer business, and it may not be able to source sufficient quantities or may face increases in water costs in the future. The beer business sources water requirements from deep wells and from water utility service providers. The Water Code of the Philippines (the “**Water Code**”, Presidential Decree No. 1067) and its implementing rules and regulations govern the appropriation and use by any entity of water within the Philippines. Water permits are issued by the National Water Resources Board and restrictions on the use of deep well water could disrupt operations. Likewise, price increases for the use of deep well water or by water utility service providers could adversely affect operating costs, which could adversely affect the beer business, its financial condition, results of operations, and prospects.

The food business may be affected by disruptions in the supply of major raw materials which include anhydrous milk fat, wheat, and soybean meal due to weather conditions of source countries, outbreak of diseases or other geopolitical developments that may affect trade situations. Another raw material that may be affected is cassava, a substitute raw material in producing animal feeds. Adverse weather conditions and the relative price attractiveness of corn farming versus cassava at certain times may discourage local farmers to plant cassava and switch to planting corn. This may in turn result in the food business’ purchasing a greater quantity of higher cost raw materials, which may affect the profit margin of the food business.

The packaging business also needs to obtain sufficient quantities of quality raw materials, including glass, aluminum, paper, and composites in a timely manner, and it requires a significant amount of electricity in order to maintain its operations.

The fuel and oil business is primarily affected by the volatility of crude oil prices, which are affected by changes in global supply and demand, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation, and other factors over which Petron has no control.

The power business requires sufficient coal supply from its power plants, which have entered into coal supply contracts with PT Kaltim Prima Coal (“**PT KPC**”), PT Bara Tabang (“**Bayan**”), and other reputable coal suppliers. If PT KPC, Bayan, and the other reputable coal suppliers fail to perform their obligations under the coal supply contracts, the disruption of coal supply may materially affect power plant operations.

The SMC Group may also face increased costs or shortages in the supply of raw materials due to the imposition of new laws, regulations or policies.

Although the SMC Group actively monitors the availability and prices of raw materials, there is no assurance that these items will be supplied in adequate quantities or at the required quality to meet its needs or will not be subject to significant price fluctuations in the future. While the SMC Group may, in certain limited instances, be able to shift to alternative raw materials to produce its products, there is no assurance that it will be able to reduce its reliance on these raw materials in the future. The SMC Group may only have a limited ability to hedge against commodity prices and any hedging activities may not be as effective as planned. Moreover, market prices of raw materials could increase significantly if there are material shortages due to, among other things, competing usage, drastic changes in weather or natural disasters. There is no assurance that any increases in product costs could be passed on to consumers. As a result, any significant shortages or material increase in the market price of such raw materials could have a material adverse effect on the financial and operating performance of the SMC Group.

#### ***Increased competition in the industries where the SMC Group operates***

The businesses of the SMC Group operate in an increasingly competitive environment, as discussed further elsewhere in this Prospectus.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources or have more extensive experience than the Company and its businesses, giving them the ability to respond to operational, technological, financial, and other challenges more quickly than the SMC Group. In addition, consolidation among competitors, the entry of new, larger competitors or other actions by competitors, such as unanticipated pricing of products at below-

market prices or unconventional promotional activities, could exert downward pressure on prices of the SMC Group's products or cause market share to decline. Finally, the review by the Philippine Competition Commission ("PCC") of mergers and acquisitions meeting certain criteria and thresholds can delay or result in revisions to planned mergers and acquisitions, which could impact the SMC Group's plans and diversification program.

Any failure to successfully compete with competitors, maintain its customer base and market share or respond to new challenges could have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

#### ***Ability of subsidiaries and associates to distribute dividends***

SMC is a holding company that conducts all of its operations through its subsidiaries, associates and joint ventures. As a holding company, the revenues of SMC are derived from, among other sources, dividends paid by its subsidiaries and associates. SMC is reliant on such sources of funds with respect to its obligations and in order to finance its subsidiaries. The ability of the subsidiaries, associates, and joint ventures of SMC to pay dividends is subject to, (i) the performance and cash flow requirements of such subsidiaries, associates, and joint ventures; (ii) the applicable laws; (iii) restrictions contained in loans and/or debt instruments of such subsidiaries; and (iv) the deduction of taxes.

Any restriction or prohibition on the ability of some or all of the subsidiaries, associates, and joint ventures of SMC to distribute dividends or make other distributions to SMC, either resulting from regulatory restrictions, debt covenants, operating difficulties or other limitations, could have a negative effect on the cash flow, financial condition, and results of operations of SMC.

#### ***Foreign exchange risk***

In 2020, approximately 80.1% of the consolidated sales of the SMC Group was denominated in Philippine Peso, while a substantial portion of its expenses, including raw materials, crude oil purchases, and foreign currency-denominated debt service costs, is denominated in U.S. dollars. As of December 31, 2020, the percentage of outstanding short-term and long-term loans of the SMC Group denominated in foreign currencies was 36%.

In addition, the financial reporting currency of SMC is in Philippine Peso, and therefore, depreciation of the Philippine Peso would result in an increase in foreign currency-denominated expenses of SMC as reflected in its Philippine Peso financial statements. This could also result in foreign exchange losses due to mark-to-market valuation of foreign currency-denominated assets and liabilities, including increases in the Philippine Peso amounts of the foreign currency-denominated debt obligations of SMC, thereby possibly adversely affecting its results of operations and financial condition. In addition, there is no assurance that SMC could increase its Peso-denominated product prices to offset increases in costs resulting from any depreciation of the Philippine Peso.

Further, the depreciation or appreciation of the Philippine Peso may result in significantly higher domestic interest rates, liquidity shortages, and capital or exchange controls. This could result in a reduction of economic activity, economic recession, sovereign or corporate loan defaults, lower deposits, and an increased cost of funds. SMC uses a combination of natural hedges, which involve holding U.S. dollar-denominated assets and liabilities, and derivative instruments to manage its exchange rate risk exposure. The occurrence of any of the foregoing events could have a material adverse effect on the businesses, financial condition, liquidity, and results of operations of SMC.

#### ***Loss of key personnel***

Any loss of key personnel, inability to replace such personnel, and failure to train and retain replacement personnel could materially and adversely affect the ability of the SMC Group to provide products and services to its customers. Continued resignation of trained personnel could also result in the SMC Group incurring additional expenses in hiring and training replacement personnel in a competitive job market, and it may take time for these new personnel to reach the level of technical skill and expertise of the personnel being replaced. In addition, the SMC Group has relied and will continue to rely significantly on the continued individual and collective contributions of its senior management team. If any key personnel are unable or unwilling to continue in their present positions, the SMC Group may not be able to replace them easily, and its business may be significantly disrupted. Any of the foregoing could have a material adverse effect on the businesses of the SMC Group.

### ***Labor disruptions***

As of December 31, 2020, approximately 13% of the employees of the SMC Group were parties to various collective bargaining agreements and there are 34 labor unions within the businesses of the SMC Group. The SMC Group maintains good labor relationships and a constant line of communication with its employees. SMC also engages its employees through employee relations programs to maintain a high level of employee satisfaction.

Other than the January 4, 2020 strike staged by the Bataan Refiners Union of the Philippines at the Petron Limay Refinery, to which the Secretary of the Department of Labor and Employment (“DOLE”) issued an Assumption Order on January 5, 2020 directing the striking union members to return to work, the SMC Group has not experienced any other strikes, work stoppages or other labor disruptions since 2003. However, there is no assurance that it will not experience future labor disruptions to its operations due to disputes or other issues with employees, which could materially and adversely affect its business, financial condition, and results of operations.

### ***Covenants in existing debt agreements***

The existing debt agreements of the Company contain various covenants and cross-default clauses in relation to indebtedness of a material subsidiary of the Company. Under a cross-default clause, if a default by such material subsidiary under its debt agreement is not cured or waived, the default could result in the default by the Company under its own existing debt agreements. Moreover, the ability of the Company and its subsidiaries to comply with covenants contained in their respective debt agreements may be affected by events beyond the control of the Company or its subsidiaries, including but not limited to, prevailing economic, financial, and industry conditions. Even if the Company is able to comply with all of the applicable covenants and potential defaults by it or its subsidiaries may be cured or waived, any default by the Company on its existing debt agreements or an occurrence of a cross-default could adversely affect the business of the Company by, among other things, limiting its ability to take advantage of financing and investment opportunities that may be beneficial to the Company and to the SMC Group.

### ***Uninsured losses***

The SMC Group ensures that its facilities are adequately covered by insurance policies against certain business risks. However, the SMC Group may not be fully insured against, and insurance may not be available for, unexpected losses caused by natural disasters, breakdowns, or other events that could affect the facilities and processes used by its businesses. Any unexpected losses caused by such events against which it is not fully insured could have a material adverse effect on its businesses, financial condition, and results of operations. Any accident at the facilities of the SMC Group, which is not adequately covered by insurance, could result in significant losses. It could suffer a decline in production, receive adverse publicity, and be forced to invest significant resources in addressing such losses. Such events could materially and adversely affect its financial condition and results of operations.

### ***Outsourcing risk***

The Company outsources certain beverage, food, and packaging manufacturing and distribution operations to third-party contractors. To ensure the timely production and distribution of its products, the SMC Group continuously monitors the efficiency and manufacturing capabilities of the relevant production facilities. However, any of the third-party contractors may experience operational issues that could cause production shortages and distribution delays. If one or more of the contract manufacturers, facility operators or distributors of the SMC Group fails to or is unable to manufacture, produce or distribute products in a timely manner, in sufficient quantities or at satisfactory quality levels, then its ability to bring products to the market and its reputation could suffer, and these could have a material adverse effect on the businesses, financial performance, and prospects of SMC. In addition, there is no assurance that it will continue to find new contract manufacturers or distributors in line with increased customer demand in the future, which could materially and adversely affect the business and prospects of SMC.

Outsourcing also carries with it certain inherent risks. These include potential actions from employees of our third-party service providers who may claim an employee-employer relationship with SMC and the risk that our third-party contracting arrangements may be found by the DOLE to be “labor-only contracting”, which could

have a significant impact on labor costs. In addition, a labor dispute involving a substantial number or all of its employees may harm the Company's reputation, disrupt operations, and reduce revenues, while the resolution of disputes may increase costs.

### ***Disruption of operations***

The SMC Group's facilities and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons, volcanic eruptions, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. In the past, these events have affected our operating results. For example, the Japanese government banned the entry of any Philippine poultry products after the avian influenza outbreak in August 2017 and as a result, SMFB's customers in Japan cancelled their orders. In April 2017, SMFB suspended production in the flour mills located in Batangas Province for two days after a series of earthquakes hit the area to assess the extent of damage and structural integrity of the building. A fire that occurred last February 1, 2020 in Pandacan, Manila damaged the storage and handling area for the plastic pallets of SMYPC as well as a portion of SMYPC's Manila plastics plant, which resulted in the suspension of operations at the plant. Said fire also damaged approximately 300 meters of a portion of the Skyway Stage 3 Project that is still under construction. There is no assurance that insurance coverage for these risks will adequately compensate the Company for all damages and economic losses resulting from natural catastrophes. The Company's business, financial condition, and results of operations may be materially and adversely affected by any disruption of operations, whether at its own facilities or that of its suppliers, including those due to any of the events mentioned above.

### ***Performance of information technology systems***

The SMC Group relies on its information technology systems to effectively and efficiently manage business data, communications, supply chain, order entry and fulfilment, and other business processes. The failure of such information technology systems to perform as anticipated could disrupt business operations, and could result in transaction errors, processing inefficiencies, and the loss of sales and customers, affecting the business generally and causing results of operations to suffer. In addition, the SMC Group's information technology systems may be vulnerable to damage or interruption from circumstances beyond its control, including fire, natural disasters, power outages, systems failures, security breaches, cyber-attacks, and viruses. Any such damage or interruption could have a material adverse effect on the Company's businesses, financial condition, and results of operations.

### ***Legal and other proceedings***

The SMC Group may, from time to time, be involved in disputes with various parties in the operations of its businesses, including those relating to commercial or contractual matters, and may be subject to investigations by regulatory and administrative bodies. Regardless of the outcome, these disputes and investigations may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. In addition, the Company and its subsidiaries may also have disagreements with regulatory bodies in the course of operations, which may subject the Company to administrative proceedings and decisions that may result in penalties or other liabilities. Any of these outcomes could materially and adversely affect the Company's business, financial condition, and results of operations. See "*The Company—Legal Proceedings.*"

### ***The Company enters into numerous transactions with related parties***

In the ordinary course of business, the Company transacts with its related parties, such as its subsidiaries and certain of its associates, and joint ventures. These transactions have principally consisted of advances, loans and purchases, and sale of products and services.

Under Section 50 of the Philippine Tax Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the Bureau of Internal Revenue ("**BIR**") Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses upon determination of the necessity to prevent evasion of taxes or to clearly reflect the income of any such business. On January 23, 2013, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the "**Transfer Pricing Regulations**") which adheres to the arm's length methodologies set out under the Organization for

Economic Cooperation and Development Transfer Pricing Guidelines in addressing Base Erosion and Profit Shifting (BEPS). The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines “related parties” as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm’s length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party, such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm’s length. In such a case, the BIR pursuant to the BIR Commissioner’s authority to distribute, apportion or allocate gross income or deductions between or among two or more businesses owned or controlled directly or indirectly by the same interests (if such is necessary in order to clearly reflect the income of such business), may make the necessary transfer pricing adjustments to the taxable profits of the related parties to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions. Although the Company has instituted internal policies with respect to related party transactions, including establishing a board committee to oversee such matters, and believes that all past related party transactions have been conducted at arm’s length on commercially reasonable terms and documented pursuant to the Transfer Pricing Regulations, there can be no assurance that the BIR may confirm these transactions as arm’s length on the basis of the Transfer Pricing Regulations and there can be no assurance that any transfer pricing adjustments by the BIR will not have a material adverse effect on the Company’s business, financial condition, and results of operations.

For more information on the Company’s related party transactions, see “*Certain Relationships and Related Party Transactions*”, Note 33 to the Company’s audited consolidated financial information.

## **RISKS RELATING TO THE FOOD AND BEVERAGE BUSINESS**

### ***Price sensitive market***

The market for beverages, such as beer and spirits, is price-sensitive. At the same time, demand for many products is closely linked to consumers’ purchasing power and disposable income levels, which may be adversely affected by unfavourable economic developments in the Philippines. While SMFB endeavours to increase prices at reasonable levels, the increase in price could cause sales volumes to decline and may affect its ability to pass on increases in excise taxes, raw material costs or other expenses, which may negatively affect revenues and results of operations.

### ***Increases in excise tax***

In the Philippines, excise tax represents a significant component of production costs of alcoholic beverages. The Philippine Tax Code provides for the excise taxes on alcohol products, including fermented liquors, such as beer, and distilled spirits such as gin. The BIR requires entities subject to such taxes, such as the Company, to obtain a permit to manufacture such products to enforce the collection and payment thereof.

Under the Philippine Tax Code, excise tax on fermented liquor is determined per litre of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB’s production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per litre on all fermented liquors, except those affected by the “no downward classification clause”, which was a change from the two-tier tax structure imposed in 2013. Several of SMB’s products were affected by the “no downward reclassification” clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2020, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Philippine Tax Code and set additional excise tax on alcoholic beverages. Effective January 1, 2020, the new excise tax rates for fermented liquor is ₱35.00 per litre. The excise tax will then increase to ₱37.00 per litre in 2021, ₱39.00 per litre in 2022, ₱41.00 per litre in 2023, and ₱43.00 per litre in 2024. Effective January 1, 2025, the excise tax rate shall be increased by 6% every year thereafter.

For distilled spirits, an additional *ad valorem* tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the *ad valorem* tax, a specific tax at the following rates shall be collected: ₱42.00 per proof litre effective January 1, 2020, ₱47.00 per proof litre in 2021, ₱52.00 per proof litre in 2022, ₱59.00 per proof litre in 2023, and ₱66.00 per proof litre in 2024. The specific tax will be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to VAT and withholding tax, when applicable.

### ***Production difficulties***

Although SMFB, particularly for segments with large consumer markets, continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, SMFB may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. If SMFB will be unable to increase the efficiency and manufacturing capabilities of its production facilities in line with increased customer demand in the future, this may adversely and materially affect its business and operations. Furthermore, SMFB may have to incur significant additional capital expenditures in the future to be able to meet increasing demand for its products.

### ***Outbreak of diseases***

SMFB's Food Division is subject to risk of losses caused by outbreaks of disease at any of the hog, cattle or poultry farms it owns or has contracted. The livestock and poultry industries in the Philippines have experienced outbreaks of disease in the past. In addition, there were sporadic cases of porcine epidemic diarrhoea (PED) during the third quarter of 2016 and first quarter in 2017, when two of our farms were affected, the Newcastle disease outbreak in the first quarter of 2016, and the Avian Influenza (H5N6) during the third quarter of 2017. Moreover, in September 2019, the Philippine Department of Agriculture confirmed the outbreak of African swine fever (ASF) across several regions in the Philippines and restrictions have been imposed by some local government units on movements of hogs across provinces. Since then, there have been confirmed cases of ASF in the Visayas and Mindanao regions. To date, none of SMFB's farms have been affected by the outbreak.

Currently, there is a looming threat of a new strain of ASF identified in China, which has the potential to become a pandemic. Researchers suggest that this strain represents a potential threat strong enough to warrant precautionary measures. In addition to this, health officials in China have also confirmed a case of bubonic plague in a herdsman from the Inner Mongolia district. The World Health Organization says it is "carefully monitoring" this case. These potential outbreaks of contagious diseases in the Philippines could have a material adverse effect on our financial condition and results of operations. In particular, any outbreak of contagious diseases could adversely affect the general level of economic activity in the Philippines, including consumer demand for SMFB's products, and our ability to adequately staff operations and distribution networks. There can be no assurance that the policies and controls for outbreak prevention and disease recurrence, including the separation of hog breeding, nursery and growing operations, bird proofing to prevent the entry of migratory birds into our poultry facilities, and strict visitor screening and sanitation procedures for entrance to any of our facilities, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu or any other contagious disease affecting our livestock production in the Philippines or elsewhere will not occur. We cannot assure our prospective investors that any future outbreak of contagious diseases will not have a material adverse effect on our business, financial condition, and results of operations.

Moreover, there can be no assurance that our internal controls and policies will be fully effective in preventing all food and beverage safety issues concerning the products we sell, including any occurrences of foodborne illnesses such as Salmonella, E. coli, and Hepatitis A. Particularly for the Food Division, selling conditions in the trade, especially in wet markets, makes fresh food vulnerable to the risk of foodborne illness. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of food and beverage safety or a foodborne illness related to our products could negatively affect our sales. This risk exists even if it were later determined that the illness was wrongly attributed to our products. The occurrence of a food and beverage safety or a foodborne illness incident, or negative publicity or public speculation about an incident, could have a material adverse effect on our business, financial condition, and results of operations.

### ***Product liability claims***

The success of the food and beverage business depends largely upon consumers' perception of the reliability and quality of its products. Any event or development that detracts from the perceived reliability or quality of SMFB's products could materially reduce demand. For example, a contamination of Beer and NAB Division's or Food Division's products by bacteria or other external agents, such as *Listeria monocytogenes*, *Salmonella* or *E. coli*, whether arising accidentally or through deliberate third-party action, could potentially result in product liability claims. Improper storage and handling may result in spoilage, defects, recalls, or complaints that may be encountered by the Food Division for temperature-sensitive products. Product liability claims, whether or not they are successful, could adversely affect the reputation of the Company's brands which may result in reduced sales and profitability. In particular, there is little, if any, control over handling procedures once SMFB's products have been dispatched for distribution and are, therefore, particularly vulnerable to problems in this phase. Even an inadvertent distribution of contaminated products may constitute a violation of law and may lead to increased risk of exposure to product liability claims, product recalls, increased scrutiny and penalties, including injunctive relief and plant closures by regulatory authorities, and adverse publicity, which could aggravate the associated negative consumer reaction. While no material product liability claim has been filed against SMFB, there is no assurance that any such product liability claims will not be filed against us in the future, and any such product liability claim, whether or not successful, could damage the Company's reputation and that of its products, and could have a material adverse effect on SMFB's financial condition and results of operations.

### ***Competition in the food and beverage industry***

SMFB operates in a highly competitive market and faces competition from domestic or local producers, which sell their own brands and/or foreign brands produced under license, and from foreign producers or imported products. Such competition could result in a loss of market share or reduce operating margins, which could adversely affect SMFB's results of operations and financial condition.

In the food and beverage industry, competitive factors generally include price, product quality, brand awareness and loyalty, distribution coverage, customer service, and the ability to respond effectively to shifts in consumer tastes and preferences. SMFB also competes with other discretionary items, including other food and beverage products and other goods and services. While SMFB seeks to continuously develop new and innovative products to meet its customers' demands and to maintain its customer base and market share, if its competitors are able to develop more innovative or better-quality products or less expensive products of similar quality, SMFB may not be able to maintain its competitive edge or market share.

In addition, consolidation among competitors, the entry of new, larger competitors into the Philippine food and beverage market or actions by competitors, such as unanticipated pricing of products at below-market prices or unconventional promotional activities, could exert downward pressure on prices of its products or cause our market share to decline.

Any failure to successfully compete with our competitors or maintain our customer base and market share could have a material adverse effect on our business, financial condition, results of operations, and prospects.

### ***Importation of lower-priced products***

The Food Division may face increased competition from less expensive product imports to the Philippines as import duties on those products are decreased or eliminated. In particular, the Philippines is a signatory to several free trade agreements—the ASEAN Trade in Goods Agreement, the ASEAN Free Trade Agreement, the ASEAN-China Free Trade Agreement, the ASEAN-Korea Free Trade Area Agreement, the ASEAN-Korea Comprehensive Economic Cooperation Agreement, the Japan-Philippines Economic Partnership Agreement, the ASEAN People's Republic of China Comprehensive Economic Cooperation Agreement, the ASEAN-Japan Comprehensive Economic Partnership, the ASEAN-Australia-New Zealand Free Trade Area Agreement, the Philippines-European Free Trade Association Free Trade Agreement, the ASEAN-India Comprehensive Economic Cooperation Agreement, the ASEAN-India Free Trade Area Agreement, the ASEAN Trade in Goods Agreement (ATIGA), the European Free Trade Association (EFTA), and the ASEAN-Hong Kong, China Free Trade Agreement—each of which may lead to increasingly lower-priced imported products entering the Philippine market. For example, with the coming into force of ATIGA, the Philippines eliminated intra-ASEAN import duties on 99.56% of its tariff lines for poultry, meat of bovine animals, flour, sausage, prepared or preserved meat, cereals, bread, pastry, cakes, biscuits, fruit juices, coffee, tea or maté, sauces and preparations,

ice cream, beer, certain spirits, liqueurs, and spirituous beverages.

SMFB's Food Division has already experienced the effects of increased competition as a result of the elimination of these import duties, and expect that competition from imported products will continue to increase. In addition, any reduction in tariffs on imports from other ASEAN countries, such as Thailand and Vietnam, and from other countries party to a free trade agreement with the Philippines, such as China and Japan, could give rise to increased competition for products.

Moreover, the Food Division faces competition from other countries. The Protein segment competes with the import of chicken leg quarters from the U.S. and Brazil; the flour milling business competes with imported flour sourced from Turkey, Vietnam, and Indonesia; and the Prepared and Packaged Food segment faces challenges from imports of butter, corned beef, luncheon meat, cheese, milk and biscuits, partly due to a decrease of the tariffs imposed on specific products under the free trade agreements. If SMFB is unable to compete effectively with lower-priced imports, its market share and sales may decrease, and its business, financial condition, results of operations, and prospects could be materially and adversely affected.

### ***Derivative and hedging transactions***

From time to time, SMFB enters into various commodity derivative instruments, such as forward purchases and caps and collars for wheat and soybean meal, to manage price risks on strategic commodities. For hedging transactions, if prices decrease, hedging positions may result in mark-to-market losses, which are, in turn, expected to be offset by lower raw material costs. SMFB endeavours to generally hedge up to 20% of its wheat and soybean meal requirements. As hedging transactions are mark-to-market, to the extent that the market price of the raw materials subject to such hedging transactions falls below the fixed price under futures contracts, net income will be lower than it would be had such transactions not been entered into. Consequently, the Company's financial performance could be adversely affected during periods in which prices of raw materials are volatile.

### ***Implementation of expansion strategy***

SMFB intends to increase sales volume through, among others, the introduction of new products and entry into new categories to broaden its product offering, expansion of its distribution network, and possible acquisitions of, or joint ventures with, other food and beverage businesses in the Philippines and in other countries. The expansion strategy will allow SMFB to expand production and generate additional value for SMFB and may be financed by a combination of additional borrowings and equity. The implementation of this expansion strategy may face uncertainties and risks and there can be no assurance that SMFB will be successful in implementing these initiatives or the implementation of any growth plans would result in an increase in income. There is also no assurance that acquisitions made or joint ventures entered into as part of these expansion plans would be successfully integrated into our operations or may result in possible contingent liabilities or other financial or legal exposure which were not sufficiently quantified during the due diligence prior to the acquisition, joint venture or other investment. As a result, these may have a material adverse effect on our liquidity, financial condition, and results of operations.

### ***International and export operations***

SMFB exports products and maintains international operations in certain countries outside of the Philippines, with plans for further international expansion. Expansion in international markets may be affected by the respective domestic economic and market conditions, as well as social and political developments in these countries, and there is no guarantee that the existing business and export operations as well as expansion plans will be successful in those countries. SMFB's business, financial condition, prospects, and results of operations could be adversely affected if it is not successful in the international markets in which it has operations or if exports of products to these international markets are affected by changes in political, economic and other factors, over which it has no control.

### ***Price monitoring by the Government***

Basic necessities, such as bread, fresh pork, beef and poultry meats, fresh eggs, milk, coffee and cooking oil, and prime commodities, such as flour, processed meats, other dairy products and swine and poultry feeds may be made subject to price monitoring by the Government. Under the Philippine Republic Act No. 7581 (the "Price Act"), as amended by Republic Act No. 10623, the President of the Philippines may impose a price



ceiling on basic necessities and prime commodities in the event of a calamity, an emergency, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. In addition, the DTI issues a “Suggested Retail Price” list for certain prime commodities, which includes some of the Food Division’s products. The DTI should be informed of any price movement in these products prior to implementing the same.

The Price Act imposes an automatic price control on the prices of basic commodities in areas declared as disaster areas, under emergency or martial law or in a state of rebellion or war. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of 60 days, except for price control on basic necessities that are wholly imported and deregulated. The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. The implementing government agencies of the Price Act are also given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors. Any resulting price control may have a material adverse effect on SMFB’s business, financial condition, and results of operations.

In light of the Philippines’ reduced local pork output due to the outbreak of ASF that has significantly affected the supply and prices of pork in the market, President Duterte signed Executive Order No. 124, series of 2021 (“EO No. 124”), imposing a 60-day price ceiling on pork and chicken products in the National Capital Region from February 1, 2021. Under EO No. 124, a price ceiling of ₱270/kg for *kasim/pigue*, ₱300/kg for *liempo*, and ₱160/kg for dressed chicken was imposed.

## **RISKS RELATING TO THE PACKAGING BUSINESS**

### ***Handling of products***

While the Packaging Group strictly implements product safety policies, there is no assurance that products packaged by the Packaging Group would not be contaminated during manufacturing, distribution or retail process. Lack of care in the handling or storage by distributors of products produced by the customers of the Packaging Group, tampering, vandalism or terrorist activities could result in the contamination or adulteration of the finished products. Any lack of care or tampering of such products, especially in instances where it is not readily capable of detection, could negatively impact the reputation of the Packaging Group and may have a material adverse effect on its business, financial performance and results of operations.

### ***Competition and challenges in product development and production processes***

One of the success factors of the Packaging Group is its ability to identify, adapt to, and meet changing customer requirements and trends in the industry. Any failure to timely develop and introduce new products, or enhance existing products in response to changing customer requirements or industry standards could have a material adverse effect on its business, financial condition, and results of operations.

In addition, new technology or production methods require significant capital investments and could take substantial amount of time to implement. There is no assurance that the Packaging Group will successfully develop the technology and production methods that will be accepted by existing customers or attract new customers, which could have a material adverse effect on its business, financial condition, and results of operations.

## **RISKS RELATING TO THE FUEL AND OIL BUSINESS**

### ***Volatility in the price of crude oil and petroleum products***

Petron’s financial results are primarily affected by the relationship, or margin, between the prices for its refined petroleum products and the prices for the crude oil that is the main raw material for these refined petroleum products. Crude oil accounted for approximately 36% and 35% of Petron’s total cost of goods sold in 2019 and 2020, respectively.

Many factors influence the price of crude oil, including changes in global supply and demand for crude oil, international economic conditions, global conflicts or acts of terrorism, weather conditions, domestic and foreign governmental regulation, price wars among oil producers, and other factors over which Petron has no control. In the first quarter of 2020, Saudi Aramco increased production from around 9.7 MMBD (million

barrels per day) to 12 MMBD when Russia refused to join the Organization of Petroleum Exporting Countries (OPEC)+ alliance in cutting production. The rise in supply, coupled with the drastic decline in demand due to the COVID-19 pandemic, resulted in Dubai price plunging to as low as \$13/bbl (barrels of oil) in April 2020 daily trading from \$67/bbl in end-December 2019. While the volatility was subsequently managed when OPEC+ agreed to cut production, demand risks continued due to the COVID-19 pandemic.

Historically, Petron holds approximately two months and approximately three weeks of crude oil and finished petroleum products inventory in the Philippines and Malaysia, respectively. Accordingly, since Petron accounts for its inventory using the first-in-first-out method, a sharp drop in crude oil prices could adversely affect Petron, as it may require Petron to sell its refined petroleum products produced with higher-priced crude oil at lower prices. Petron may not be able to pass crude oil price fluctuations along to its consumers in a timely manner, or at all, due to regulatory restrictions or social and competitive concerns. The Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. Any inability to pass on fluctuations in the price of crude oil may have a material adverse effect on the Petron's business, results of operations and financial condition. In addition, even if Petron were able to pass on increases in the price of crude oil to its customers, demand for its products may decrease as a result of such price increases. In addition, Petron's Malaysian operations are subject to government price controls.

Furthermore, a sharp rise in crude oil prices would increase Petron's requirements for short-term financing for working capital and may result in higher financing costs for Petron. Any difficulties in securing short-term financing for working capital, or unfavorable pricing terms, may have a material adverse effect on Petron's financial condition and results of operations.

***Dependence on a number of suppliers for a significant portion of its crude oil requirements in the Philippines and Malaysia***

Petron acquires crude oil for the Petron Bataan Refinery primarily through its arrangements with its wholly-owned subsidiary Petron Singapore Trading Pte. Ltd. ("PSTPL"), which in turn obtains crude oil from different sources, through a combination of term or spot purchase contracts. PSTPL has a term contract with Saudi Aramco for year 2021 to purchase various Saudi Arabian crude. Monthly Official Selling Price is determined by Saudi Aramco through a formula that is linked to international industry benchmarks applicable to all its customers in the Far East. The contract is automatically renewed annually unless either Petron or Saudi Aramco decides to terminate the contract upon at least 60 days' written notice prior to its expiration date. As of the date of this Prospectus, neither Petron nor Saudi Aramco has terminated the contract.

The supply of crude oil by Saudi Aramco and several other suppliers on a spot basis is subject to a variety of factors beyond Petron's control, including geopolitical developments in and the stability of Saudi Arabia and the rest of the oil-producing countries, government regulations with respect to the oil and energy industry in those regions, weather conditions, and overall global economic conditions.

Petron acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a combination of term purchase contracts and spot market purchases. Petron has a long-term supply contract for Tapis crude oil and Terengganu condensate with Exxon Mobil Exploration and Production Malaysia Inc. ("EMEPMI") until March 2022 (to be renewed), supplemented by other short-term supply contracts and spot crude purchases. The Port Dickson Refinery is able to source suitable crude oil blend to meet monthly optimal crude run. Currently, about 70% of the crude and condensate volume is sourced from EMEPMI, while the balance from other term and spot purchases. Productions are supplemented by imports and local purchases of finished products to meet domestic sales demand for LPG, gasoline and diesel through term and spot arrangements.

A disruption in the operations of Saudi Aramco, EMEPMI, other suppliers or a decision by any of them to amend or terminate their respective contracts with Petron, could impact Petron's crude oil supply. If Petron's supply of crude oil were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases. Depending on market conditions at the time and timing of the disruption, such purchases from other suppliers or the spot market could be at higher prices than Petron's purchases from Saudi Aramco, EMEPMI or other suppliers, which would adversely affect Petron's financial condition and results of operations.

The Petron Bataan Refinery is capable of processing various types of crude oil. Petron's crude oil optimization strategy includes the utilization of various types of crude oil ranging from light and sweet crude

to heavier, more sour alternative crude, to provide additional value to Petron. The completion of the second phase of Petron's Refinery Master Plan project at the Petron Bataan Refinery ("RMP-2") has given the Petron Bataan Refinery greater flexibility to use heavier, more sour alternative crude.

The Port Dickson Refinery is designed to process sweet crude oil. Petron's crude oil optimization strategy for the Port Dickson Refinery includes diversification in processing different types of local as well as regional sweet crude oil. With the forthcoming operation of the Diesel Hydrotreater unit at the Port Dickson Refinery, Petron will be able to process slightly higher sulphur crude oil.

If Petron is unable to obtain an adequate supply of crude oil or is only able to obtain such supply at unfavorable prices, its margins and results of operations would be materially and adversely affected.

***Petron's business, financial condition and results of operations may be adversely affected by intense competition and cyclicalities in global and regional refining capacities.***

Petron faces intense competition from a number of multinational and local competitors in the sale of petroleum and other related products in the markets in which it operates. Because of the commodity nature of oil products, and competition in the Philippine and international markets for refined petroleum products is based primarily on price as adjusted to account for differences in product specifications and transportation and distribution costs. Participants in the reseller and LPG sectors in the Philippines continue to rely on aggressive pricing and discounting in order to expand their market share. On the other hand, Petron's Malaysian operations are mostly subject to government price controls and quotas. As a result, competition in these market sectors is based primarily on product quality, operational cost efficiency, supply chain reliability, and customer value creation.

Petron's competitiveness will depend on its ability to manage costs, increase and maintain efficiency at its refineries, effectively hedge against fluctuations in crude oil prices, maximize utilization of its assets and operations, and comply with and obtain additional quotas from the Malaysian government. If Petron is unable to compete effectively, its financial condition and results of operations, as well as its business prospects, could be materially and adversely affected.

In addition, the Philippine oil industry is affected by ongoing smuggling and illegal trading of petroleum products. These illegal activities have resulted in decreases in sales volume and sales price for legitimate oil market participants in the Philippines. Petron's ability to compete effectively will depend to a degree on the proper enforcement of Philippine regulations by the Philippine government, which is beyond Petron's control.

Furthermore, the global and regional refining industry has historically experienced periods of tight supply, resulting in increased prices and margins, as well as periods of substantial capacity additions, resulting in oversupply and reduced prices and margins. Any downturn in prices or margins resulting from existing or future excess industry capacity could have a material adverse impact on Petron's business, financial condition, and results of operations.

#### ***Disruption in operations or casualty loss at the refineries***

Petron's operation of its refineries and implementation of its expansion plans could be adversely affected by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, fires, explosions, release of toxic fumes, engineering and environmental problems, natural disasters and other unforeseen circumstances and problems. For example, on April 22, 2019, about a week before its scheduled total plant maintenance shutdown, the Petron Bataan Refinery had an emergency total plant shutdown due to loss of power and steam when an earthquake triggered the safety interlock system of its Refinery Solid Fuel Fired Boilers and caused power loss from the Luzon power grid. After power from the grid was restored and the boilers were restarted, the Petron Bataan Refinery continued to conduct safe shutdown activities and process unit preservations and proceeded with scheduled maintenance activities. In September 2019, a leak was discovered in an underwater valve of the crude SBM pipeline manifold (PLEM) co-owned with Hengyuan Refinery in Malaysia. The leak was discovered through a thin layer of oil sheen observed around the SBM and required 35 days of temporary outage for inspection and repair work. Quick response by suspending the operation followed by immediate investigation prevented any major oil spill through the leak. The SBM outage resulted in refinery shutdown for 25 days given no supply of crude can be discharged into the refinery. The incident required the activation of Petron's business continuity plan, managing incoming crude supply and continued supply of petroleum products to customers, to ensure the reliable and continuous supply of finished

products. Although the Port Dickson Refinery underwent a temporary shutdown to facilitate investigations and repair works, there was no significant impact on product supply due to the activation of Petron's business continuity plan. No injury was recorded and the incident left minimal impact on the environment. These types of disruptions could result in product run-outs, facility shutdowns, equipment repair or replacement, increased insurance costs, personal injuries, loss of life, and/or unplanned inventory build-up, all of which could have a material adverse effect on the business, results of operations and financial condition of Petron.

Petron has insurance policies that cover property damage, marine cargo, third party liability, personal injury, accidental death and dismemberment, sabotage and terrorism, machinery breakdown, and business interruption to mitigate the potential impact of these risks. However, these policies do not cover all potential losses, and insurance may not be available for all risks or on commercially reasonable terms. Petron self-insures some risks which have a low probability of occurring and for which insurance policies are not readily available or are priced unreasonably high. There can be no assurance that operational disruptions will not occur in the future or that insurance will adequately cover the entire scope or extent of the losses or other financial impact on Petron.

### ***Effect of Malaysian government policies and regulations relating to the marketing of fuel products***

As in many countries, the fuel business in Malaysia is regulated by the government. The Malaysian government regulates the pricing structure through the automatic pricing mechanism ("APM"), pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas, and (iii) certain fixed amounts for marketing, transportation, and distribution costs in relation to the subsidy structure. The Malaysian government may subsidize fuel prices so that increases in international crude oil and finished products prices are not borne fully by Malaysian consumers. Effective March 30, 2017, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of Research Octane Number ("RON") 95 and RON 97 petroleum and diesel on a weekly basis based on the Mean of Platts Singapore ("MOPS"). If government-mandated prices are lower than the fuel products' total built-up cost per the APM, Petron will receive subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the fuel products' total built-up cost per the APM, Petron will pay duties to the Malaysian government. A substantial portion of Petron's revenue has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of retail diesel in Malaysia is subject to a quota system that applies to oil companies and eligible users and customers to ensure that subsidized diesel sold at service stations (meant strictly for road transport vehicles) is not sold illegally to industrial or commercial customers at unregulated prices. Diesel sales at service stations that exceed the volumes permitted under Petron's or its customers' quotas are not eligible for government subsidies. Accordingly, in instances when the government-mandated prices are lower than the company's total built-up costs, Petron endeavors to limit diesel sales to volumes covered by the quotas. There can be no assurance that the Malaysian government will increase quotas corresponding to fuel demand growth, grant applications or not decrease Petron's quotas or those of any of its customers in the future. A substantial portion of Petron's revenue is derived from sales of diesel in Malaysia that are subject to the quota system. Accordingly, if the Malaysian government decreases or does not increase Petron's quotas or those of any of its selected transportation sector customers, Petron's financial condition and results of operations may be materially and adversely affected.

### ***Compliance with safety, health, environmental and zoning laws and regulations***

The operations of Petron is subject to a number of national and local laws and regulations in the countries in which it operates, including safety, health, environmental, and zoning laws and regulations. These laws and regulations impose controls on air and water discharges, the storage, handling, discharge and disposal of waste, the location of storage facilities, and other aspects of Petron's business. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against Petron, including the revocation or suspension of Petron's licenses or operation of its facilities.

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. Programs were recently implemented to comply with Health and Safety Regulatory guidelines: (a) Project TRACIE (Tracking and Recognizing All COVID-19 Infection in the workplace Environment) - launched as part of compliance to DOLE and DTI Interim Guideline; (b) compliance by the Petron Bataan Refinery, terminal operations, and Petron's headquarters to Republic Act No. 11058 otherwise known as an "*Act Strengthening Compliance with Occupational Safety and Health Standards and Providing Penalties for Violations thereof*", specifically the Occupational Safety and Health ("OSH") Compliance Binder; and (c) compliance to mandatory

8-hour OSH seminars, among others. In addition, Petron has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, environmental, and zoning laws and regulations. There are ongoing discussions, clarifications, and technical conferences between DENR-EMB and all stakeholders, including Petron Bataan Refinery, for reconsideration of removal/relaxation of specific effluent parameters initially covered under Water Quality Guidelines and General Effluent Standards of 2016 (DAO No. 2016-08). If these discussions are successful, additional investment on the Petron Bataan Refinery's waste water treatment plant may no longer be required at this time. There can be no assurance that Petron will be compliant with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held responsible in any future litigation or proceedings relating to safety, health, environmental, and zoning matters, the costs of which could be material.

In addition, safety, health, environmental, and zoning laws and regulations in the Philippines and Malaysia have become increasingly stringent. There can be no assurance that the adoption of new safety, health, environmental, and zoning laws and regulations, new interpretations of existing laws, increased governmental enforcement of safety, health, environmental, and zoning laws or other developments in the future will not result in Petron being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities.

For example, the mandatory compliance with Euro IV standards in the Philippines in 2016 and the implementation in Malaysia of various Euro 4M and Euro 5 compliant fuels in phases from 2015 through 2027 required Petron to incur additional capital expenditures in order to meet these standards. Petron has complied with the Euro IV standards in the Philippines and has constructed a new diesel hydrotreater process unit in the Port Dickson Refinery to comply with Euro 5 diesel regulations in 2021 as mandated by the Malaysian government. If Petron fails to complete its planned refinery upgrades or enhancements on time, it may have to import additional products in the spot market to blend with its own production to ensure compliance with the relevant standards, which could have a material adverse effect on Petron's financial condition and results of operations.

In addition, if the measures implemented by Petron to comply with applicable laws, regulations and standards are not deemed sufficient by governmental authorities, compliance costs may significantly exceed current estimates, and expose Petron to potential liabilities, including administrative penalties. If Petron fails to meet safety, health, and environmental requirements, it may be subject to administrative, civil, and criminal proceedings by governmental authorities, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against Petron and damage to its reputation, as well as orders that could limit or affect its operations. There is no assurance that Petron will not become involved in future litigation or other proceedings relating to safety, health, and environmental matters. Litigation or other proceedings are inherently unpredictable and may be time-consuming and disruptive to Petron's business and operations, regardless of the merits of the claims. There is no assurance that Petron will not be held responsible in any such future litigation or other proceedings, the costs of which could be material. Environmental compliance and remediation costs at sites on which Petron's facilities are located or other locations and related litigation and other proceedings could materially and adversely affect Petron's financial condition and results of operations.

***Failure to respond quickly and effectively to product substitution or government-mandated product formulations***

Any potential increase in oil prices and environmental concerns could make it more attractive for Petron's customers to switch to alternative fuels such as compressed natural gas and electric vehicles for transport and liquefied natural gas for power. Additionally, increasing biofuels content in gasoline and diesel effectively displaces refinery produced products.

For instance, the Philippine government pushed for the increase of coco methyl ester (CME) content in diesel from 2% to 5% by 2020. Implementation, however, was delayed due to the COVID-19 pandemic. In addition, the government targets to increase ethanol content in gasoline from the current 10% to 20% by 2040.

In Malaysia, palm oil methyl ester content in diesel will be increased from 10% to 20% beginning June 2021 for Sabah and December 2021 for the Peninsula.

If Petron does not respond quickly and effectively to product substitutions or government-mandated product formulations in the future, its business and prospects may be adversely affected.

### ***Significant capital expenditures, financing, and expansion of marketing and logistical support***

Petron's business is capital intensive. Specifically, the processing and refining of crude oil and the purchase, construction, and maintenance of machinery and equipment require substantial capital expenditures. Petron's ability to maintain and increase its sales, net income, and cash flows depends upon the timely and successful completion of its planned capital expenditure projects. Specifically, Petron intends to (i) continue investments in the Petron Bataan Refinery facilities to: (a) ensure reliability and efficiency of critical refinery processes, and (b) reduce costs with the construction of a new power plant which would replace some of its old generators and generate incremental power and steam; (ii) continue to build service stations in high-growth or high-volume sites and expansion of its retail network for its LPG and lubes segment; (iii) expand and upgrade its logistics capacity; and (iv) expand Malaysia operations with new service stations and facilities improvements in the Port Dickson Refinery, in compliance with applicable regulations.

If Petron fails to complete its planned capital expenditure projects on time or within budget or at all, or to operate its facilities at their designed capacity, it may be unable to achieve the targeted growth in sales and profits, and its business, results of operations, and financial condition could be adversely affected. Furthermore, there can be no assurance that the Petron Bataan Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and logistical support for Petron's production. Any of the foregoing factors could adversely affect Petron's business, financial condition and results of operations.

In addition, Petron has incurred a substantial amount of indebtedness to finance its capital expenditure projects. Petron's ability to complete its planned capital expenditure projects and meet its debt servicing obligations will depend in part on its ability to generate sufficient cash flows from its operations and obtain adequate additional financing. There can be no assurance that Petron will be able to generate sufficient cash flows from its operations or obtain adequate financing for its planned capital expenditure projects or to meet its debt servicing obligations, on acceptable terms or at all. Failure by Petron to finance and successfully implement its planned capital expenditure projects could adversely affect its business, financial condition, and results of operations.

### ***Changes in applicable taxes, duties and tariffs***

Petron's operations are subject to various taxes, duties, and tariffs. The tax and duty structure of the oil industry in the Philippines has undergone some key changes. For example, excise taxes for petroleum products were increased to ₱9.00 per litre for regular gasoline and unleaded premium gasoline, ₱4.00 per litre of aviation turbojet fuel and aviation gas, ₱4.00 per litre for kerosene, ₱4.50 per litre for diesel, and ₱2.00 per kilogram of LPG, effective as of January 1, 2019. These excise taxes were subject to increase effective January 1, 2020, to ₱10.00 per litre for regular gasoline and unleaded premium gasoline, ₱4.00 per litre for aviation turbojet fuel and aviation gas, ₱5.00 per litre for kerosene, ₱6.00 per litre for diesel, and ₱3.00 per kilogram for LPG.

On June 1, 2018, the Malaysian government withdrew the Goods and Services Tax ("GST"). The GST was replaced with a Sales and Services Tax ("SST") on September 1, 2018.

There can be no assurance that any future tax changes in the Philippines or Malaysia would not have a material and adverse effect on Petron's business, financial condition and results of operations.

## **RISKS RELATING TO THE ENERGY BUSINESS**

### ***Increased competition in the Philippine power industry***

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC-owned and controlled power generation assets, the establishment of the WESM, the start of the Retail Competition and Open Access ("RCOA"), implementation of mandatory Competitive Selection Process ("CSP") for distribution utilities, and the implementation of the green energy option which allows contestable customers to directly contract with a renewable energy supplier. Further, Republic Act No. 10667 or the Philippine Competition Act was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting

consumer welfare and advancing domestic and international trade and economic development.

The move towards a more competitive environment could result in the emergence of new and numerous competitors. These competitors may have greater financial resources and may have more extensive experience than SMC Global Power, giving them the ability to respond to operational, technological, financial and other challenges more quickly than SMC Global Power. These competitors may therefore be more successful than SMC Global Power in acquiring existing power generation facilities or in obtaining financing for and the construction of new power generation facilities or in successfully bidding at CSPs conducted by distribution utilities. The type of fuel that competitors use for their generation facilities may also allow them to produce electricity at a lower cost and to sell electricity at a lower price. In addition, other sources for the provision of ancillary services may arise, including technological developments or establishment of new market regimes, which may increase competition and reduce prevailing prices for these services. Moreover, a decline in oil and gas prices, which reduces the cost of producing electricity from fossil fuels, could make energy storage solutions integrated with renewable energy sources less competitive against other solutions including conventional generation. SMC Global Power may therefore be unable to meet the competitive challenges it will face.

As a result of increased competition, SMC Global Power could also come under pressure to review or renegotiate the terms of existing offtake agreements with customers, which may lead to a downward adjustment of tariffs, and could adversely affect the business, financial performance and results of operations of SMC Global Power. To the extent that distribution utilities or industrial offtakers agree to purchase from other generation companies instead of purchasing from SMC Global Power, the ability of SMC Global Power to increase its sales and sell additional electricity to distribution utilities or industrial offtakers through its generation facilities would be adversely affected.

#### ***Suspension of issuance and renewal of Retail Electricity Supplier (“RES”) licenses***

In June 2015, the DOE through its Department Circular (“DC”) No. 2015-06-0010 enjoined the ERC to immediately issue the supporting guidelines including the revised rules for issuance of RES licenses. In compliance with the department circular, the ERC issued the following resolutions to govern the issuance of new RES licenses and renewal of existing RES licenses and the registration of retail customers:

- Resolution No. 5, Series of 2016, entitled “A Resolution Adopting the 2016 Rules Governing the Issuances of the Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefore” (the “RES License Guidelines”)
- Resolution No. 10, Series of 2016, entitled “Adopting the Revised Rules for Contestability”
- Resolution No. 11, Series of 2016, entitled “Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market”
- Resolution No. 28, Series of 2016, entitled “Revised Timeframe for Mandatory Contestability”

However, in February 2017, the Philippine Supreme Court, acting on a petition filed by certain entities, issued a temporary restraining order (TRO) on the implementation of the foregoing ERC resolutions. As of the date hereof, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC No. 2017-12-0013 and DC No. 2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA. In 2019, the DOE issued DC2019-07-0011, amending various issuances on the implementation of the RCOA. DC No. 2019-07-0011 provides that registration of contestable customers as trading participant in the WESM shall be on a voluntary basis and that contestable customers shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

In 2020, the ERC has resumed the processing of new and renewal applications for RES licenses, based on a 2011 ERC resolution on RES licensing which, according to the ERC, is not covered by the above-mentioned TRO. While certain subsidiaries of SMC Global Power have valid and existing RES licenses expiring in 2021, the ability of SMC Global Power to directly contract with contestable customers may be limited if prior to the expiry of such RES licenses (a) the temporary restraining order on the RES License Guidelines is not lifted, or (b) an alternative regulatory framework governing the retail sale of electricity is not put in place. Such limitation on the ability of SMC Global Power to directly contract with contestable customers could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

#### ***Disruptions and fluctuations in fuel supply***

The operations of the Sual Power Plant, Ilijan Power Plant, Masinloc Power Plant, the Limay Greenfield Power Plant, and Davao Greenfield Power Plant depend on the availability of fuel, in particular, coal and natural gas. SMC Global Power, through its subsidiaries, is responsible, at the cost of the latter, for supplying the fuel requirements of the Sual Power Plant, Masinloc Power Plant, Limay Greenfield Power Plant, and Davao Greenfield Power Plant. SMC Global Power, through its subsidiaries, has entered into fuel supply agreements for its power plants and, subject to regulatory approval, is able to pass on the fuel cost to its customers (particularly for distribution utilities and electric cooperatives). In the case of certain PSAs covering an aggregate capacity of 1,290 MW starting 2020 and entered into by SMC Global Power, through its subsidiaries, with Meralco as a result of the latter's CSP conducted last September 2019, there are fixed price escalation mechanisms rather than tariff adjustment based on current fuel prices. Consequently, SMC Global Power may no longer pass-through the impact of fuel price fluctuations and may have positive benefits or negative exposures should fuel prices increase or decrease, respectively.

There is no assurance that there will not be any interruption or disruption in, or change in terms of, the fuel supplies to these power plants, or that there will be sufficient fuel in the open market at competitive prices or sufficient transportation capacity available to ensure that these power plants receive sufficient fuel supplies required for their operations on a timely basis or at all. There is also no assurance that SMC Global Power, through its subsidiaries, will be able to purchase all of its required fuel supplies from its regular suppliers that produce fuel of acceptable and known quality. Consequently, SMC Global Power could experience difficulties ensuring a consistent quality of fuel, which could negatively affect the stability and performance of these power plants.

For example, the Ilijan Power Plant sources natural gas for its operations from the Malampaya Gas Facility in Palawan ("**Malampaya**"). According to the DOE, Malampaya's natural gas output is estimated to decline substantially by 2022 as the Malampaya gas supply is depleted. SMC Global Power believes that it is well placed to secure access to alternative sources of fuel, and has executed a binding term sheet covering the use of a hybrid terminal composed of onshore regasification units and onshore and offshore storage technologies, to be constructed in Ilijan, Batangas and which is expected to allow SMC Global Power to receive, store, and process liquefied natural gas ("**LNG**") from the global market. Alternatively, the Ilijan Power Plant may also be reconfigured to be a diesel or an LNG-type facility in the future. There can be no assurance that the planned LNG terminal will be completed within the expected time frame or at all, or that SMC Global Power will be able to access natural gas it requires for its operations. Reduced supply of high-grade coal may also cause disruptions in SMC Global Power's fuel supply. SMC Global Power has invested in circulating fluidized bed ("**CFB**") or supercritical power plants (for the Limay Greenfield Power Plant, Davao Greenfield Power Plant, and Unit 3 of the Masinloc Power Plant) that can use low-grade coal and has retrofitted its existing pulverized coal ("**PC**") power plants (Masinloc Units 1 and 2) to use low-grade coal, which is also less expensive and relatively more abundant compared to high-grade coal (*i.e.*, coal of 6,000 kcal upwards). There can be no assurance that SMC Global Power will be able to obtain the quality of coal in such quantities that it requires for its operations.

Such factors, which include events which are beyond the control of SMC Global Power, could affect the normal operation of these power plants or incur significant costs to source replacement power or reconfigure its plants, which could have material adverse effect on the business, financial condition, and results of operations of SMC Global Power.

SMC Global Power, through its subsidiaries, has fuel supply agreements with reputable and reliable international coal suppliers, such as but not limited to Bayan, KPC, and Vitol Asia Pte. Ltd., for its power plants. The diversity of coal suppliers of SMC Global Power provides assurance of fuel supply limiting any issues with any specific region or supplier. For natural gas, NPC/PSALM is contractually obligated to deliver supply of fuel to the Ilijan Power Plant under the Ilijan IPPA Agreement. Neither SMC Global Power, nor SPPC, has direct relationship with the supplier of natural gas. However, events of shutdown or gas restrictions can be interpreted as force majeure or may be covered by the outage provisions of the downstream offtake agreements of SPPC, limiting any adverse effects of disruptions in the supply of natural gas to SPPC.

SMC Global Power also believes that the size and diversity of the fuel supply of its power portfolio reduces the exposure of SMC Global Power and its customers to fuel-type specific risks such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price.



### ***Reliance on Independent Power Producers (“IPPs”) for the operation and maintenance of the Independent Power Producer Administrator (“IPPA”) Power Plants***

Power generation involves the use of highly complex machinery and processes and the success of SMC Global Power depends on the effective maintenance of equipment for its power generation assets. IPPs associated with the respective IPPA Power Plants are responsible for the operation and maintenance of their respective IPPA Power Plants.

Although the energy conversion agreement (“ECA”) for Sual, Ilijan ECA and the San Roque ECA contain bonus and penalty provisions, and SMC Global Power monitors the IPPs’ adherence to the minimum operating protocols specified in the IPPA and ECAs, there is still a risk that the IPPs will fail to satisfactorily perform their respective operations and maintenance obligations. Any failure on the part of such IPPs to properly operate and/or adequately maintain their respective power plants could have a material adverse effect on the business, financial condition, and results of operations of SMC Global Power.

In addition, if SMC Global Power, through its subsidiaries, fails to generate or deliver electricity beyond contractually agreed periods due to the failure of the IPPs to operate and maintain the power facilities, the counterparties of SMC Global Power in its power supply contracts (“PSCs”) may have a right to terminate those contracts for outages beyond applicable outage allowances in the PSCs, and replacement contracts may not be entered into on comparable terms or at all. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

SMC Global Power leverages on the strengths and track record of its world-class IPP partners in operating its existing power portfolio while monitoring their adherence to the minimum operating protocols specified in the IPPA and ECAs in line with international best practices.

### ***Market limitations under the EPIRA***

Based on the total installed generating capacities reported in ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% market share of the National Grid, 27% of the Luzon Grid, and 8% of the Mindanao Grid, in each case as of December 31, 2020. The EPIRA limits the market share of a participant to 30% per grid and 25% of the National Grid by installed capacity. While SMC Global Power is currently within its market share cap even taking into account the greenfield power plants under construction, it may not receive permission to increase its capacity and market share further if this would result in exceeding the permitted capacity or market share prescribed by the EPIRA. Such inability to expand and grow the power business could materially and adversely affect the business prospects of SMC Global Power.

### ***Project risks inherent in the development of greenfield power projects and expansion projects***

The development of greenfield power projects and expansion of existing power plants involve substantial risks that could give rise to delays, cost overruns, or unsatisfactory construction or development in the projects. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, and unforeseen engineering and environmental problems, among others. Any such delays, cost overruns, unsatisfactory construction or development could have a material adverse effect on the business, financial condition, results of operation as well as its future growth prospects of SMC Global Power.

Project risks could emanate from various sources such as poor project planning, execution and contractor/subcontractor issues. If not addressed in a timely manner, these issues may negatively impact the project which would ultimately affect SMC Global Power’s financial condition and results of operations, such as revenue loss resulting from delay in commercial operations. For example, under SMC Global Power’s EPC contract for Unit 3 of the Masinloc Power Plant, commercial operations were scheduled to begin in April 2019. As a result of various delays incurred by the EPC contractor, Unit 3 completed commissioning and commenced commercial operations on September 26, 2020. In view of the delay in the commercial operations of Unit 3, Posco Engineering & Construction Co. Ltd. has offered SMC Global Power a reasonable amount as settlement for liquidated damages, subject to certain conditions, which SMC Global Power has accepted.

Further, any delay in the receipt of the relevant permits will also delay the completion of a project. Any of these project risks could have a material adverse effect on the business, financial condition, results of operations, and future growth prospects of SMC Global Power.

To manage these risks, SMC Global Power has a strong credit line to avail external financing and sufficient internally generated funds to finance its projects. Also, SMC Global Power has entered into offtake agreements with various distribution utilities and industrial users that has substantially contracted the projects' commercial capacity.

SMC Global Power has contracted world-class and industry-leading EPC contractors to construct its projects. Under the EPC contracts, SMC Global Power will be indemnified in the event of delay and/or default of the EPC contractor. To ensure timely delivery and performance, the EPC contracts provide for a schedule of payments of the contract price based on agreed milestones. SMC Global Power checks on the accomplishments of the EPC contractor prior to the release of the corresponding payment per milestone.

#### ***Adverse effect of WESM price fluctuations***

From the time the WESM for Luzon began operating in June 2006, market prices for electric power have fluctuated substantially. Unlike many other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with its use. As a result, power prices are subject to significant volatility from supply and demand imbalances. Long-term and short-term power prices may also fluctuate substantially due to other factors outside of the control of SMC Global Power, including:

- increases and decreases in generation capacity in the markets, including the addition of new supplies of power from existing competitors or new market entrants as a result of the development of new generation power plants or expansion of existing power plants or additional transmission capacity;
- changes in power transmission or fuel transportation capacity constraints or inefficiencies;
- electric supply disruptions, including power plant outages and transmission disruptions;
- changes in the demand for power or in patterns of power usage, including the potential development of demand-side management tools and practices;
- the authority of the ERC to review and, if warranted under applicable circumstances, adjust the prices on the WESM;
- climate, weather conditions, natural disasters, wars, embargoes, terrorist attacks, and other catastrophic events;
- availability of competitively priced alternative power sources;
- development of new fuels and new technologies for the production of power; and
- changes in the power market and environmental regulations and legislation.

These factors could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

On March 3, 2014, the ERC issued an order (the “**ERC Order**”) declaring the prices in the WESM for the November and December 2013 billing months, as null and void, and ordered the PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices. SMEC, SPPC, SPDC, MPPCL, and SPI filed a request with the ERC for the reconsideration of the ERC Order. Other generators also requested the Supreme Court to stop the implementation of the ERC Order. On June 26, 2014, SMEC, SPPC, SPDC, and SPI filed with the Court of Appeals a Petition for Review of these orders. On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014. In the event that the prices initially set by the WESM are upheld, then the relevant subsidiaries of SMC Global Power may file a claim for refund with PEMC for an amount of up to ₱2,322 million, plus interest.

The strategy of SMC Global Power is to source majority of its revenues from bilateral offtake agreements. This ensures cash flows while minimizing the exposure of SMC Global Power to any unfavourable fluctuations in WESM prices. Revenue from bilateral contracts with offtakers contributed 91%, 94%, and 95% of total revenue for the years ended December 31, 2018, 2019, and 2020, respectively.

#### ***Non-renewal of or non-compliance with offtake agreements***

SMC Global Power, through its subsidiaries, has offtake agreements with various distribution utilities, electric cooperatives, and large industrial and commercial users. In respect of the IPPA Power Plants, some offtake agreements will expire before the termination of the applicable IPPA Agreement, although they may be renewed by mutual agreement of the parties. The IPPA Agreements provide that the amounts of payment obligations of SMC Global Power will increase over time. While SMC Global Power intends to renew the offtake agreements

upon expiration to provide stable and predictable revenue streams, there is no assurance that SMC Global Power will be able to renew or enter into new offtake agreements for similar volumes or at similar prices, or that SMC Global Power will be able to enter into new offtake agreements. If SMC Global Power is unable to enter into new offtake agreements, SMC Global Power will be further exposed to fluctuations in electricity prices in the WESM, which could materially and adversely affect the profitability of SMC Global Power.

When the current offtake agreements with Meralco expire or are otherwise renegotiated, they may be renewed for lower electricity volumes than in the past or on different terms, including under different pricing terms. In addition, there can be no assurance that Meralco and other offtakers will be able to meet their future payment obligations under their agreements with SMC Global Power. For the SMC Global Power's greenfield power plants, there is no assurance that SMC Global Power, through its subsidiaries, will be awarded contracts pursuant to any CSP conducted by Meralco or other distribution utilities or electric cooperatives, or will successfully negotiate with various contestable customers or RES.

The business, cash flows, earnings, results of operations, and financial condition of SMC Global Power could be materially and adversely affected if Meralco does not renew its bilateral offtake agreements with subsidiaries of SMC Global Power under favorable terms or at all, or if Meralco and other offtakers are unable to meet their payment obligations under existing agreements, and SMC Global Power is unable to find new customers to replace Meralco and other offtakers.

SMC Global Power manages a large, reliable and diverse portfolio of power plants that allows it to supply at competitive rates and terms. Considering the increasing electricity requirements of the country underpinned by a strong GDP and population growth rate, SMC Global Power believes that its bilateral offtake agreements will be renewed or it will be able to expand its customer base. Further, SMC Global Power has an experienced sales and marketing team that actively markets to its existing and new financially capable prospective customers and intends to continuously participate in competitive selection processes to be conducted by distribution utilities. In addition, SMC Global Power maintains good working relationships with its offtakers and has cultivated a long history of reliability and good customer service.

#### ***Operating capacities of its power portfolio***

The administration of the output of the power generation plants involves significant risks, including but not limited to:

- breakdown or failure of power generation equipment, transmission lines, pipelines or other equipment or processes, leading to unplanned outages and operational issues;
- flaws in the equipment design or in power plant construction;
- issues with the quality or interruptions in the supply of key inputs, including fuel or water;
- material changes in legal, regulatory or licensing requirements;
- operator error;
- performance below expected levels of output or efficiency;
- industrial actions affecting power generation assets owned or managed by the subsidiaries of SMC Global Power or its contractual counterparties;
- pollution or environmental contamination affecting the operation of power generation assets;
- planned and unplanned power outages due to maintenance, expansion, and refurbishment;
- inability to obtain or the cancellation of required regulatory, permits, and approvals;
- opposition from local communities and special interest groups; and
- force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts that could cause forced outages, suspension of operations, loss of life, severe damage, and plant destruction.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase costs or decrease or eliminate sales derived by SMC Global Power from its power generation assets. While the IPPA Agreements of SMC Global Power provide certain reliefs in the event the IPPA Power Plants cannot produce or dispatch electricity, if any of the power generation assets of SMC Global Power is unable to generate or deliver electricity to customers for an extended period of time which may be due to the aforementioned risks, its customers may be exempt from making certain payments so long as any such events continue. In addition, if the subsidiaries of SMC Global Power fail to generate or deliver electricity beyond the contractually agreed outage periods, its counterparts in its PSCs may have a right to terminate those

contracts, and replacement contracts may not have been entered into on comparable terms. Any of the foregoing could have a material adverse effect on the financial and operating performance of SMC Global Power.

SMC Global Power leverages on the strengths and track record of its partners in operating its existing power portfolio by monitoring their adherence to the minimum operating protocols specified in their respective IPPA Agreements or operations and maintenance agreements in line with international best practices.

***Operating and other risks leading to network failures, equipment breakdowns, planned or unplanned outages.***

Power generation is vulnerable to human error in operation, equipment failure, catastrophic events, natural disasters, sabotage, terrorist attacks or other events which can cause service interruptions, network failures, breakdowns or unplanned outages. There is no assurance that accidents will not occur with the SMC Global Power's power plants or that the preventative measures taken by SMC Global Power will be fully effective in all cases, particularly in relation to external events that are not within its control. Moreover, any loss from such events may not be recoverable under SMC Global Power's insurance policies. SMC Global Power's income and cash flows will be adversely affected by any disruption of operations of its plants due to any of the foregoing risks. Any unplanned plant shutdowns for an extended period of time will have a material adverse effect on SMC Global Power's ability to sell power and SMC Global Power's results of operations could suffer. For example, in 2017 the Sual Power Plant Unit 2 experienced an outage for 158 days due to transformer failure. In the event of a service disruption, SMC Global Power would typically seek to purchase replacement power, which may be at a significantly greater cost than power generated by it or than it is able to recover. SMC Global Power is also entitled to reduction in the IPPA payments to PSALM for fixed and generation fees of the plant that will compensate it for any loss in margins from prolonged outages. Any of these factors may be beyond SMC Global Power's control, and their occurrences could have a material adverse effect on SMC Global Power's business, financial condition or results of operations.

***Insurance coverage for generation plants***

The IPPs of the IPPA Power Plants are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance coverage. The IPPA of these IPPA Power Plants, namely SMEC, SPDC, and SPPC, however, are not beneficiaries of any of these insurance policies. These IPPAs have no business interruption insurance coverage and are therefore uninsured for liabilities or any direct or indirect costs and losses which may be incurred, as a result of any business interruption that their respective IPPA Power Plant may experience. SMC Global Power believes that there is no business interruption insurance available for the IPPA business model under which its IPPA subsidiaries are currently operating. Accordingly, any uninsured liabilities or direct or indirect losses, including any third-party claims that result from an interruption to the business of these IPPAs could have a material adverse effect on SMC Global Power's financial condition and results of operations.

The power plants of SMC Global Power, SCPC, SMCPCL, and MPPCL secure the necessary insurance for their respective power plants, the terms of which are reviewed regularly and cover industrial all risks, business interruption, marine cargo insurance, sabotage and terrorism, physical material loss or damage caused by natural disasters, breakdowns or other events that could affect the facilities and processes used by its businesses. The business interruption insurance policies of these entities however, do not cover any declines in production or adverse publicity that SCPC, SMCPCL, or MPPCL may suffer as well as any significant resource that SCPC, SMCPCL, or MPPCL may invest to address such losses.

In addition, there is no assurance that SMC Global Power will be able to renew these policies on similar or otherwise acceptable terms, or at all, or that SMC Global Power will not experience a material increase in the premiums payable under its insurance policies. For example, the insurance policies of MPPCL and SMCPCL for "Full Political Violence Insurance" which have lapsed are currently under review and negotiation and expected to be renewed within the second quarter of 2021. If one or more of SMC Global Power's power projects were to incur a serious uninsured loss, a loss that significantly exceeded the limits of its insurance policies or any unexpected losses against which these subsidiaries are not fully insured, this could have a material adverse effect on their businesses, financial condition, and results of operations.

### *No direct contractual and operational relationship*

SMC Global Power is dependent on the operators of the IPPA Power Plants to generate power from the IPPA Power Plants, and for the IPPs to comply with their contractual obligations to NPC under their IPP Agreements. SMC Global Power does not have a direct contractual relationship with the IPPs and cannot directly enforce the IPP Agreements against the IPPs. Failure by an IPP to comply with its obligations under its IPP Agreement may significantly reduce or eliminate power generation volumes or increase costs, thereby decreasing or eliminating revenues that the IPPA subsidiaries of SMC Global Power can derive from selling the power generated by the IPPA Power Plants. Any claims for damages for breach, or other entitlement, benefit or relief under the IPPA Agreement arising from the breach, by the IPP, of its IPP Agreement obligations must be claimed by SMC Global Power against PSALM through specified claim mechanisms. The IPPA Agreements do not permit set-off of claims, and the IPPA subsidiaries of SMC Global Power are only entitled to payment of their claim after PSALM has received payment from the IPP of its corresponding claim. Accordingly, the IPPA subsidiaries of SMC Global Power bear the risks associated with the lack of direct recourse against the IPPs, delays in the enforcement of their claims and other risks related to pursuing claims or legal proceedings against a state-owned entity such as PSALM. Any of these factors could have a material adverse effect on the business, financial condition, and results of operations of SMC Global Power.

### *Variations in hydrological conditions and irrigation requirements*

Hydroelectric generation is dependent on the amount and location of rainfall and river flows, which vary widely from quarter to quarter and from year to year. NPC owns and operates the dam and the dam-related facilities of the San Roque Power Plant and has obtained a water permit allowing it to use the water flow from the Agno River to generate power from the San Roque Power Plant with an allowable volume dictated by downstream irrigation requirements set by the National Irrigation Administration (“NIA”).

The facilities of AHEPP are located within the Angat Watershed Reservation, which is managed by and is under the jurisdiction of NPC. NPC was issued a water permit dated November 28, 1979 by then National Water Resources Council pursuant to which NPC has authority to extract water from the Angat River for power generation purposes. In a resolution dated April 4, 2016, National Water Resources Board (“NWRB”) granted KWPP Holdings Corporation's petition for the transfer of the said water permit to itself and authorized its lease to AHC. The water discharged by the AHEPP is used for the following purposes: (i) the water outflow of the three auxiliary units of 6 MW capacity each (each an “**Auxiliary Unit**” or collectively, “**Auxiliary Units**”) flows to the Ipo Dam and is conveyed by Metropolitan Waterworks and Sewerage System (“MWSS”) to Metro Manila for domestic use; and (ii) the water outflow of the four main units of 50 MW capacity each (each a “**Main Unit**” or collectively, “**Main Units**”) flows to the Bustos Dam and is conveyed by NIA to the province of Bulacan for irrigation purposes.

The levels of hydroelectric production can therefore vary from period to period depending on the water levels in the reservoir and downstream irrigation and water supply requirements. In years of less favourable hydrological conditions, such as periods of drought or when the El Niño weather phenomenon occurs, the reservoir has low water levels, which reduces the amount of power that the San Roque Power Plant and the AHEPP are able to generate. This could reduce the revenues from the sale of power from the San Roque Power Plant and the AHEPP, which could have a material adverse effect on SMC Global Power’s business, financial condition, and results of operations. Conversely, if too much rainfall occurs at any one time, such as during a typhoon, water may flow too quickly and at volumes in excess of the water intake capacity of the San Roque Power Plant and AHEPP, which may cause release of water using the spillway.

SMC Global Power, through its subsidiaries, actively manages the water supply of the hydro power plants to optimize generation while ensuring that the irrigation supply requirements are met in coordination with the relevant government agencies.

### *Challenges in successfully implementing its growth strategy*

Implementing the growth strategy of SMC Global Power involves: (i) substantial investments in new power generation facilities and expansion of existing power generation facilities; (ii) acquisitions of existing power generation capacity; and (iii) entering into alliances with strategic partners; (iv) entering into new and developing technologies and services, such as energy storage solutions, particularly BESS and ancillary services, such as frequency regulating reserves; and (v) targeting new markets, such as the renewable energy market. The success in implementing the strategy of SMC Global Power will depend on, among other things, its

ability to identify and assess investment and acquisition opportunities as well as potential partners; its ability to successfully finance, close and integrate investments, acquisitions and relevant technologies for the production of power; its ability to manage construction of planned greenfield and expansion power projects within technical, cost and timing specifications; its ability to establish BESS projects and integrate these with the grid and support renewable energy sources, its ability to secure offtake agreements through CSP, its ability to control costs and maintain sufficient operational, financial and internal controls; the strength of the Philippine economy (including overall growth and income levels), the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

SMC Global Power is also contemplating several additional potential investments and acquisitions but has not entered into any definitive commitment or agreement for any such contemplated investment or acquisition. If general economic and regulatory conditions or market and competitive conditions change, or if operations do not generate sufficient funds or other unexpected events occur, SMC Global Power may decide to delay, modify or forego some of its planned or contemplated projects or alter aspects of its growth strategy, and its future growth prospects could be materially and adversely affected. For example, SMC Global Power may consider alternative technologies for planned power projects that will improve efficiencies and lower emissions.

The growth strategy of SMC Global Power will also place significant demands on its management, financial, and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training, and retention of sufficient skilled technical and management personnel and developing and improving its internal administrative infrastructure. In addition, expansion into new markets will necessitate recruitment and development of expertise in new technologies, including natural gas and BESS technologies. Any inability to meet these challenges could disrupt the business of SMC Global Power, reduce its profitability and adversely affect its results of operations and financial condition.

SMC Global Power: (i) maintains a highly experienced management team composed of experts with extensive knowledge of the Philippine power industry; (ii) has in place a system of financial prudence and corporate governance; and (iii) strengthens the competencies of its employees specifically those in the succession pipeline of key personnel, provides training to prepare employees to take on higher responsibilities, and pursues strategic hiring for identified critical positions.

SMC Global Power undertakes prudent review and due diligence and evaluates the viability of any acquisition or investment. In addition, SMC Global Power is guided by metrics when assessing possible investments, which include, but are not limited to, financial returns and possible synergies, with an overall objective of maximizing returns.

#### ***Dependence on the existence of transmission infrastructure***

The transmission infrastructure in the Philippines continues to experience constraints on the amount of electricity that can be delivered from power plants to customers, as well as limited interconnectivity between the Luzon-Visayas Grid and the lack of any interconnectivity between the Visayas-Mindanao Grid.

SMC Global Power and its subsidiaries are in constant consultation and communication with NGCP and other relevant government institutions to address the transmission infrastructure requirements of the SMC Global Power and its subsidiaries. The DOE is mandated by law to prepare a Transmission Development Plan to be implemented by NGCP which aims to address projected infrastructure limitations and interconnectivity of sub-grids.

If these transmission constraints continue, the ability of SMC Global Power to supply electricity from the IPPA Power Plants of its subsidiaries and its operating and planned greenfield power projects, as well as the ability of SMC Global Power to increase its geographical reach, will be adversely affected. This could have a material adverse effect on the business and revenue growth of SMC Global Power from the sale of power.

#### ***Certain tax exemptions and tax incentives***

As of December 31, 2020, certain subsidiaries of SMC Global Power, namely, SCPC for the Limay Greenfield Power Plant, SMCP for the Davao Greenfield Power Plant, MPPCL for the Masinloc Power Plant and the Masinloc BESS, SMCGP Philippines Energy for the Kabankalan BESS, and Universal Power Solutions Inc. (“**UPSI**”, formerly Limay Power Generation Corporation) for the various BESS projects, were registered with the Board of Investments (“**BOI**”) as new operators with pioneer status and non-pioneer status for its greenfield

projects. MPGC is also registered with the Authority of the Freeport Area of Bataan for its Mariveles Greenfield Power Plant. These registered entities are granted certain tax exemptions and tax incentives, deductions from taxable income subject to certain capital requirements, and duty-free importation of capital equipment, spare parts and accessories.

For the plants currently availing of these incentives, if these tax exemptions or tax incentives expire, are revoked, or are repealed, the income from these sources will be subject to the corporate income tax rate, which is currently 25.0% of net taxable income. As a result of a loss in any tax exemptions or tax incentives, the tax expense of SMC Global Power would increase and its profitability would decrease. The expiration, non-renewal, revocation or repeal of these tax exemptions and tax incentives, and any associated impact on SMC Global Power, could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

### ***ERC Regulation of electricity rates of distribution utilities***

The imposition of more stringent regulations and similar measures by the ERC could have a material adverse effect on the business, financial conditions, and results of operations of SMC Global Power.

Sales to distribution utilities account for majority of the consolidated sales volume of SMC Global Power for the year ended December 31, 2020. While rates charged by SMC Global Power through its subsidiaries under their offtake agreements, including those with distribution utilities, are not regulated by the ERC, the rates that distribution utility customers charge to their customers are subject to review and approval by the ERC. Accordingly, the ability of distribution utility customers to pay the subsidiaries of SMC Global Power largely depends on their ability to pass on their power costs to their customers. There is also no assurance that the current laws, regulations, and issuances affecting the industry, particularly the EPIRA and the issuances of the ERC, will not change or be amended in the future.

More recently, the Supreme Court issued its ruling in May 2019 in respect of the following ERC resolutions:

- Resolution No. 13, Series of 2015, entitled “A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply to the Captive Market” (“**CSP Guidelines**”)
- Resolution No. 1, Series of 2016, entitled “A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015” (“**ERC Clarificatory Resolution**”)

The CSP Guidelines and the ERC Clarificatory Resolution were issued by the ERC to implement the CSP, pursuant to the DOE’s Department Circular No. DC2015-06-0008 mandating all distribution utilities to undergo CSP in securing power supply agreements.

In its decision, the Supreme Court, acting on a petition filed by certain entities, declared as void the first paragraph of Section 4 of the CSP Guidelines and the ERC Clarificatory Resolution. Consequently, all PSAs filed with the ERC on or after June 30, 2015 were directed to comply with the CSP in accordance with prevailing rules and regulations. The power purchase cost resulting from the CSP (the “**CSP Power Purchase Cost**”) would be the generation cost which the relevant distribution utility may pass on to its customers commencing on June 30, 2015. In a resolution dated July 23, 2019, the Supreme Court denied with finality all motions for reconsideration filed by various parties. In consideration of the foregoing, the PSA between Meralco and MPGC, and the PSA between Meralco and CLPPC, were voluntarily terminated by mutual agreement of the relevant parties. SSMC Global Power intends to participate in the power supply requirements of Meralco estimated to be up to 4,200 MW and for which bidding is expected over the next few years, beginning with the announced bidding of 1,800 MW contract capacity currently scheduled for January 25, 2021.

Further, as a result of the decision, the ERC released orders to the joint applicants of various PSA applications (the “**Joint PSA Applications**”) filed during the affected period requiring them to comply with the CSP requirements under the DOE CSP Policy and to submit the necessary DOE certifications attesting their compliance to the said circular (the “**2019 ERC Orders**”). The lack of the necessary DOE certifications could result in the dismissal of the relevant Joint PSA Applications.

In October 2019, SMC Global Power, together with certain distribution utilities and electric cooperatives, filed motions for reconsideration of the 2019 ERC Orders claiming that the DOE CSP Policy should not apply to such Joint PSA Applications primarily on the ground that these were entered into before the implementation of the DOE CSP Policy in 2018. As of the date of this Prospectus, these motions for reconsideration are pending

before the ERC. The ERC or the DOE may still require the relevant distribution utilities and/or the relevant generation companies of the Joint PSA Applications to refund the difference between the generation cost actually passed on to customers and the applicable CSP Power Purchase Cost that could be passed on to customers, accruing from June 30, 2015 until the effectivity of the relevant CSP Power Purchase Cost under applicable regulations.

The ERC in the exercise of its regulatory powers may also impose fines, penalties, or sanctions on SMC Global Power in appropriate cases. Any such fines, penalties, sanctions or restriction on the ability of distribution utilities and/or generation companies to pass on such costs or any intervention in such rates could have a material adverse effect on the business, financial conditions, and results of operations of SMC Global Power.

SMC Global Power continues to engage in comprehensive discussions and maintains good working relationship with the ERC to obtain proper resolution of its pending applications for tariff approval.

### ***Trading in WESM***

While the subsidiaries of SMC Global Power only sell a small amount of power through the WESM, volatile market conditions on the WESM may nevertheless pose risks to SMC Global Power regardless of whether there is a shortage or a surplus of energy available. When the WESM experiences a shortage, there is little risk to suppliers in terms of their value-position being destroyed. However, such a suppliers' market exposes these suppliers to the risk that regulatory agencies may intervene (directly or indirectly) to dictate prices and dispatch of power plants. Consumer outrage, triggered by high prices, could precipitate attempts to suspend the WESM and return to subsidized rates regimes. Regardless of whether such a suspension ultimately comes to pass, market anticipation of such an occurrence could lead to value-destructive market distortions.

On the other hand, a surplus market tends to cause spot market prices to reflect the marginal cost of producing power. One of the main features of the WESM is a merit-order dispatch scheme wherein the cheapest sources of power, such as power produced from geothermal and hydroelectric energy, are dispatched first, before the more expensive power providers. While a supplier can mitigate its exposure to surplus risks by contracting the bulk of its capacity to offtakers to protect against low spot prices, as the subsidiaries of SMC Global Power have done, this also caps a supplier's ability to take advantage of price spikes caused by temporary market shortages.

As of November 30, 2020, the ERC has maintained a reduced primary bid cap of ₱32,000 per MWh (megawatt hours). In addition, a permanent secondary price cap limits spot prices to ₱6,245 per MWh for as long as cumulative spot prices breach a certain threshold. Prices are automatically capped at ₱6,245 per MWh for hours where the average price for the last 120-hours exceeds ₱9,000 per MWh.

The occurrence of such events could have a material adverse effect on the business, financial condition and results of operations of SMC Global Power.

Majority of the capacity of the subsidiaries of SMC Global Power is contracted through PSAs) with various offtakers. In addition, SMC Global Power continues to engage in comprehensive discussions and maintains good working relationship with the PEMC to align its trading strategies with reasonable and acceptable standards and best practices.

### ***Foreign Exchange Risk***

While most of the offtake agreements of SMC Global Power allow adjustments for foreign exchange rate fluctuations, SMC Global Power remains subject to foreign exchange risk. A substantial amount of revenue from sales of power by SMC Global Power is denominated in Philippine Pesos, while a portion of its expenses and obligations are denominated in U.S. Dollars. The scheduled payment obligations to PSALM pursuant to the IPPA agreements of the IPPA subsidiaries with PSALM are denominated in both U.S. Dollars and Philippine Pesos. The proportion of U.S. Dollars to Philippine Pesos payable under the IPPA agreements is approximately 50%, at the exchange rates prevailing as of the dates of the respective IPPA agreements. SMC Global Power, through its subsidiaries, also purchases coal as fuel for the Sual Power Plant and its greenfield power projects using U.S. Dollars. In addition, a significant portion of the capital expenditures required for its greenfield power projects are denominated in U.S. Dollars.

SMC Global Power also obtained U.S. dollar term facilities from various foreign financial institutions for its power projects which remains outstanding as of December 31, 2020. In addition, SMC Global Power issued



several redeemable perpetual securities and senior perpetual capital securities in 2018, 2019 and 2020 denominated in U.S. Dollars.

In addition, the PSAs entered into with MERALCO as a result of the latter's CSP conducted in September 2019, with an aggregate capacity of 1,290 MW starting 2020 have fixed price escalation mechanisms rather than tariff adjustment based on current foreign exchange rates. Consequently, SMC Global Power may no longer pass-through the impact of foreign exchange fluctuations, which may have positive benefits or negative exposures should the peso appreciate or depreciate, respectively.

A depreciation of the Philippine Peso, particularly with respect to the U.S. Dollars, increases the Philippine Peso equivalent value of the foreign currency-denominated costs and obligations of SMC Global Power. This could adversely affect the results of operations of SMC Global Power and its ability to service its foreign currency-denominated liabilities.

SMC Global Power actively evaluates combinations of natural hedges, such as holding U.S. dollar-denominated assets and liabilities and foreign exchange adjustments in the pricing for certain offtake contracts and derivative instruments to manage its exchange rate risk exposure. SMC Global Power has entered into derivative contracts covering its net foreign currency-denominated monetary liabilities. As a general policy, SMC Global Power may hedge up to 50% of its exposure and subject to management approval, for more than 50% of its exposure if necessary. Less than 15% of the net foreign currency-denominated monetary liabilities of SMC Global Power has been hedged as of December 31, 2020. SMC Global Power also considers redenomination of U.S. dollar-denominated obligations to Philippine Peso to minimize exposure to foreign exchange fluctuations. Nonetheless, there can be no assurance that the Philippine Peso will not depreciate significantly against the U.S. dollar or other currencies in the future or that such depreciation will not have an adverse effect on the growth of the Philippine economy or the financial condition of SMC Global Power.

### ***Interest Rate Risk***

While SMC Global Power intends, whenever appropriate, to enter into hedging transactions which may mitigate its interest rate exposure, any such hedging policy may not adequately cover its exposure to interest rate fluctuations and such fluctuations may result in a high interest expense and an adverse effect on its business, financial condition, and results of operations.

### ***Regulatory Risks***

The business of SMC Global Power is subject to extensive government regulation, particularly for its greenfield power plants, expansion projects, and retail supply business. Moreover, as SMC Global Power expands its BESS capabilities and projects, it will be subject to applicable regulations under ancillary services and energy storage systems. To conduct its businesses, SMC Global Power and its subsidiaries must obtain various licenses, permits, and approvals. Even when SMC Global Power and its subsidiaries obtain the required licenses, permits, and approvals, their operations are subject to continued review under the applicable regulations, and the interpretation or implementation of such regulations is subject to change. For example, in October 2020, DOE Secretary Alfonso G. Cusi announced that the periodic assessment of the country's energy requirements has led the DOE to declare a moratorium on endorsements for greenfield coal power plants, and subsequently clarified that the moratorium would not apply to those greenfield power plants in the pipeline for which endorsements had already been previously issued. The DOE later issued an *Advisory on the Moratorium of Endorsements for Greenfield Coal-Fired Power Projects In Line with Improving the Sustainability of the Philippines's Electric Power Industry* dated December 22, 2020 to implement the moratorium.

In addition, the operations of its greenfield power plants are subject to a number of national and local laws and regulations, including safety, health, and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of facilities, employee exposure to hazardous substances, site clean-up, groundwater quality and availability, plant and wildlife protection, and other aspects of the operations of the business of SMC Global Power and its subsidiaries. Failure to comply with relevant laws and regulations may result in monetary penalties or administrative or legal proceedings against SMC Global Power or its subsidiaries, which may cause or result in the termination or suspension of the licenses or operation of their facilities.

SMC Global Power and its subsidiaries have incurred, and expect to continue to incur, operating costs to comply with such laws and regulations. In addition, SMC Global Power and its subsidiaries have made, and expect to

continue to make, capital expenditures on an ongoing basis to comply with safety, health, and environmental laws and regulations.

While SMC Global Power believes that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, there can be no assurance that SMC Global Power and its subsidiaries will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held liable in any future litigation or proceedings relating to safety, health, mining and environmental matters, the costs of which could be material. In addition, safety, health, mining, and environmental laws and regulations in the Philippines have become increasingly stringent. There can be no assurance that the adoption of new safety, health, mining, and environmental laws and regulations, including increased governmental scrutiny of the same, new interpretations of existing laws, or other developments in the future will not result in SMC Global Power and its subsidiaries from being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade, supplement or relocate its facilities. Moreover, in the event that future laws are enacted imposing restrictions on operations and refinancing, particularly in relation to power plants utilizing fossil fuels, then certain capital expenditures or expenses may not be recovered.

For example, the implementing rules and regulations issued by the DOE on “Renewable Portfolio Standards” mandates electric power industry participants (such as generation companies, distribution utilities and electric cooperatives) to source or produce a fraction of their electricity requirements from eligible renewable energy resources and undertake CSP in sourcing renewable energy. While activities related to sourcing renewable energy are presently favoured by certain public policies, these policies can be altered or reversed, which could reduce or slow demand for renewable energy sources and energy storage technologies, including BESS.

The Philippines is also a party to the 2015 Paris Agreement, which aims to keep the increase in global average of temperature to well below 2°C above pre-industrial levels and to limit the increase to 1.5°C, since this would substantially reduce the risks and effects of climate change. As a party to the agreement, the Philippines may impose more stringent regulations, particularly on coal-fired power plant emissions, requiring expensive pollution controls on coal-fired power plants, among other measures. These measures may significantly increase costs of coal-fired power plants and, at the same time, increase the cost competitiveness of renewable energy. A significant portion of the captive market may shift away from coal and other hydrocarbon fuels, which may expose the coal-fired power plants of SMC Global Power to stranded-asset risk (*i.e.*, hazard of an asset suffering from an unanticipated write-down, devaluation, or conversion to liability).

SMC Global Power has been compliant with and continues to perform its obligations under applicable laws and regulations relevant to its businesses. If SMC Global Power and its subsidiaries fail to comply with all applicable regulations or if the regulations governing its business or their implementation change, SMC Global Power or its subsidiaries may incur increased costs or be subject to penalties, which could disrupt its operations and have a material adverse effect on its business and results of operations.

SMC Global Power and its subsidiaries are in constant consultation with relevant government agencies and other approving bodies to ensure that all requirements, permits, and approvals are anticipated and obtained in a timely manner. SMC Global Power and its subsidiaries maintain a strong compliance culture and have processes in place in order to manage adherence to laws and regulations.

With respect to the ongoing trend and shift towards renewables, SMC Global Power believes that, given the various uncertainties on future sources of reliable and cost-effective energy, its existing power asset portfolio and pipeline of power plant projects are well suited and readily available to contract, at viable terms, a significant portion of the continuously increasing demand whether from the captured or the contestable markets. Nevertheless, SMC Global Power continues to pursue a diversified power portfolio which includes renewable energy plants and is confident that it can leverage on its existing network of partners should the need arise to source energy from eligible renewable energy sources.

It is also unlikely for the power generation assets of SMC Global Power to be stranded because a substantial portion of its existing capacity are contracted to qualified offtakers on a long-term basis. Moreover, in view of the ongoing market liberalization of the local power industry, SMC Global Power has open access to potential offtakers whether from the captured or contestable markets as long as it remains competitive in its pricing and quality of service.

Equally important is SMC Global Power's constant vigilance and awareness of the carbon footprint and potential environmental hazards associated with fossil fuel-fired power plants and how this may influence certain off-takers' willingness to purchase power from such facilities. As such, SMC Global Power closely supervises and controls the operations of its power generation assets to ensure that emissions are well below international and local environmental compliance standards. For example, the Limay Greenfield Power Plant and Davao Greenfield Power Plant of SMC Global Power uses the circulating fluidized bed technology in addition to other facilities such as fine coal grinders, limestone injections, and electrostatic precipitators, to transform coal into a fuel source that is relatively low in pollutant emissions.

### ***Climate change policies***

SMC Global Power is currently invested in certain coal-fired power plants in the Philippines. Policy and regulatory changes, technological developments and market and economic responses relating to climate change may affect SMC Global Power's business and the markets in which it operates. The enactment of an international agreement on climate change or other comprehensive legislation focusing on greenhouse gas emissions could have the effect of restricting the use of coal. Other efforts to reduce greenhouse gas emissions and initiatives in various countries to use cleaner alternatives to coal such as natural gas may also affect the use of coal as an energy source.

In addition, technological developments may increase the competitiveness of alternative energy sources, such as renewable energy, which may decrease demand for coal generated power. Other efforts to reduce emissions of greenhouse gases and initiatives in various countries to encourage the use of natural gas or renewable energy may also discourage the use of coal as an energy source. The physical effects of climate change, such as changes in rainfall, water shortages, rising sea levels, increased storm intensities and higher temperatures, may also disrupt SMC Global Power's operations. As a result of the above, SMC Global Power's business, financial condition, results of operations, and prospects may be materially and adversely affected.

### ***Legal and other proceedings arising out of its operations***

SMC Global Power and its subsidiaries, from time to time, may be involved in disputes with various parties involved in the generation, supply and sale of electric power, including contractual disputes with subcontractors, suppliers and government agencies. For example, 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, the parties have arrived at different computations regarding the subject payments. Pending resolution of the dispute, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan power plant and SPPC continues to be the IPP administrator for the Ilijan power plant. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs and delays in the operations of SMC Global Power. SMC Global Power may also have disagreements with regulatory bodies in the ordinary course of its business, which may subject it to administrative proceedings and unfavorable decisions that will result in penalties and/or delay the development of its greenfield projects and its current operations. In such cases, the business, financial condition, results of operations, and cash flows of SMC Global Power could be materially and adversely affected.

## **RISKS RELATING TO THE INFRASTRUCTURE BUSINESS**

### ***Completion of infrastructure projects***

SMC may not be able to fully realize the benefits of pursuing its diversification strategy through its infrastructure business as the completion of infrastructure projects is subject to various risks, uncertainties, and limitations including:

- the need to procure materials, equipment, and services at reasonable costs and in a timely manner;
- reliance on the performance of third-party providers and consultants which have an impact on the overall operating performance of the infrastructure business;
- the possible need to raise additional financing to fund infrastructure projects, which SMHC may be unable to obtain on satisfactory commercial terms or at all;
- deficiencies or delays in the design, engineering, construction, installation, inspection, commissioning, management or operation of projects, where applicable;
- penalties if concession requirements are not satisfied;
- the timely delivery by the Government of any rights of way for its projects;

- its ability to complete projects according to budgeted costs and schedules;
- market risks;
- non-implementation of toll or fare adjustments provided under its concession;
- regulatory risks; and
- delays or denials of required approvals, including required concessional and environmental approvals.

Occurrence of the aforementioned events could result in delays, cost overruns, unsatisfactory construction or development or the total or partial loss of the interest of SMHC in the relevant project and have a material adverse effect on the business, financial condition, results of operation, and future growth prospects of SMHC.

### ***Enforceability of concession agreements***

The continuity of operations of the infrastructure business is highly dependent on the validity and enforceability of the applicable concession agreements which contain all the obligations and responsibility of the concessionaire and grantor over the relevant concession period.

There is no assurance that the Government will not push for the renegotiation of the terms of other concession agreements or similar agreements which it deems to be onerous, disadvantageous or inequitable. Any such compulsory renegotiation of signed agreements may create uncertainty or instability in the business environment in the Philippines which, in turn, could have a material impact on the Company's business, financial position, and results of operations.

### ***Inability to secure tariff increases***

The commercial success of the infrastructure business depends in part on its ability to implement tariff increases. While tariff increases are permitted contractually pursuant to pricing formulas set forth in the applicable concession agreements, these may be subject to the approval of relevant government and regulatory agencies. Any constraint on the ability to increase tariffs could have a material adverse effect on business, financial condition, and results of operations of the infrastructure business.

SMC SLEX Inc. (formerly South Luzon Tollway Corporation) ("SMCSI") has filed four petitions for periodic toll rate adjustment with the TRB, the first of which was filed on July 20, 2012 and subsequently amended on October 24, 2012 and November 28, 2012. The application submitted in 2012 was due for implementation beginning January 1, 2013 but has yet to be acted upon by the TRB.

The second petition for periodic toll rate adjustment was filed with and received by the TRB on September 30, 2014. However, a Motion for Leave to Amend the Petition was filed by SMCSI on November 19, 2014 for the purpose of clarifying and further supporting the basis for the computation of the adjusted toll rate. To date, SMCSI has not yet submitted a revised petition for periodic toll rate adjustment to the TRB.

The third petition for toll rate adjustment was filed with and received by the TRB on September 28, 2018. The application submitted in 2018 was due for implementation beginning January 1, 2019 but has yet to be acted upon by the TRB.

The fourth and latest petition was filed and received by the TRB on September 30, 2020. The application submitted in 2020 was due for implementation beginning January 1, 2021 but has yet to be acted upon by the TRB.

SMCSI continues to engage in comprehensive discussions and maintains a good working relationship with the TRB to obtain a proper resolution of the pending toll rate adjustments. In addition, the administration under President Duterte has given focus and aims to increase infrastructure spending to 5% of GDP and has provided great optimism to the infrastructure sector. This is a positive indication that long delayed Public Private Partnership ("PPP") Projects will be implemented, including the approvals of pending toll rate adjustments.

Star Infrastructure Development Corporation ("SIDC") also submitted a letter dated October 28, 2014 requesting the TRB to approve the implementation of the toll rate increase for the additional works for Stage 2 Phase 2. SIDC has already provided all the required certificates and requirements needed by TRB for the approval of implementation of adjusted toll rate. On November 2017, the TRB implemented 50% of the approved increase in toll rate of ₱1.361/km.

### ***Decrease in utilization***

The commercial success of the infrastructure business depends in part on the ability to maintain or increase utilization of its infrastructure facilities. External events may decrease the number of vehicles, airplanes or passengers that utilize the infrastructure facilities such as rising oil prices which may result in fewer passenger vehicle journeys and increase in cost of airfares. Any decrease in utilization or any factor that would decrease patronage could have a material adverse effect on the financial condition and results of operations of the infrastructure business.

The infrastructure business continually adopts efficiency improvement programs (such as implementation of the Radio Frequency ID system for its toll road systems) and regular improvements and maintenance of the facilities that would improve utilization while providing convenience to motorists.

### ***Obtaining new concessions or projects***

SMHC's plans in relation to the infrastructure business contemplate the continued acquisition of new concessions and projects, successful participation in bids for projects as well as exploring opportunities in other sectors. SMHC's ability to expand its business and increase operating profits is dependent on many external factors and events that are outside its control, including changes in governmental laws and policies.

## **RISKS RELATING TO THE PHILIPPINES**

### ***Concentration of operations and assets in the Philippines***

Historically, the financial condition and results of operations of SMC have been influenced to a significant degree by the general state of the Philippine economy and the overall levels of business activity in the Philippines, and the Company expects that this will continue to be the case in the future. The Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso, and the imposition of exchange controls. The Company cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of Philippine consumers. Demand for many of the products of SMC is tied closely to domestic consumer purchasing power and disposable income levels. In addition, as the businesses expand their product and brand portfolios in higher-priced premium market segments in their respective industries, their businesses and prospects will be increasingly affected by any deterioration in consumer purchasing power. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of SMC.

The Philippines is currently experiencing an economic downturn due to the COVID-19 pandemic and resultant community quarantine. The country's gross domestic product suffered a -9.6% contraction for the whole of 2020 with economists forecasting it to rise sharply in 2021 by 6.5% to 7.5%. The World Bank expects the Philippine economy to grow by 5.5% and 6.3% in 2021 and 2022, respectively. For the year 2020, domestic inflation averaged 2.6%, reaching as high as 3.5% in December. However, the average inflation was still within the government's 2% to 4% target. For the fifth time in 2020, BSP cut the rate on its overnight reverse repurchase facility by 25 basis points to 2.00% from 2.25%, totalling a 200-basis point reduction for the entire 2020. In addition, the Monetary Board cut the rate on the overnight deposit facility and the overnight lending facility to 1.50% and 2.50%, respectively. A global recession also took place for the year 2020 as the economic effects of the COVID-19 pandemic were felt in other countries, which also adversely affected the Philippine economy.

Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Company's financial position and results of operations, including the Company's ability to grow its business portfolio, and its ability to implement the Company's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition or results of operations.

Factors that may adversely affect the Philippine economy include: decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally; exchange rate fluctuations and foreign exchange controls; rising inflation or increases in interest rates; levels of employment, consumer confidence and income; changes

in the Government's fiscal and regulatory policies; Government budget deficits; adverse trends in the current accounts and balance of payments of the Philippine economy; public health epidemics or outbreaks of diseases, such as re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-Cov), Severe Acute Respiratory Syndrome (SARS), avian influenza (commonly known as bird flu) or H1N1, and the recent novel Coronavirus (COVID-19), or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia; natural disasters, including but not limited to tsunamis, typhoons, volcanic eruptions, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and other regulatory, social, political or economic developments in or affecting the Philippines.

SMC is one of the largest and most diversified conglomerates in the Philippines by revenue and total assets, with sales equivalent to approximately 4% of Philippine GDP in 2020. Nonetheless, any downturn in the Philippine economy may have a negative impact on consumer sentiment and general business conditions in the Philippines, which may materially reduce the revenues, profitability and cash flows of the Company. Moreover, there is no assurance that current or future government policies would continue to be conducive to sustaining economic growth.

#### ***Political instability or acts of terrorism in the Philippines***

The Philippines has, from time to time, experienced political and military instability, including acts of political violence. In the last decade, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents, two chief justices of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy.

No assurance can be given that the future political or social environment in the Philippines will be stable or that current and future governments will adopt economic policies conducive for sustaining economic growth. An unstable political or social environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of SMC.

#### ***Acts of terrorism, clashes with separatist groups and violent crimes***

The Philippines has also been subject to a number of terrorist attacks and the Armed Forces of the Philippines has been in conflict with groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in May 2017, the city of Marawi in Lanao del Sur, Mindanao, was assaulted by the Maute Group, terrorists which were inspired by pledged allegiance to the Islamic State of Iraq and Syria ("ISIS"). Due to the clash between the Government forces and the terrorists and the risk of the armed conflict spilling over to other parts of Mindanao, martial law was declared in the entire island of Mindanao, Philippines. In October 2017, the city was declared liberated from the terrorists. Despite this, the Philippine Congress extended the imposition of martial law in Mindanao until the end of 2019, citing persistent threats of terrorism and rebellion and to ensure the total eradication of ISIS-inspired terrorists in the country. The martial law in Mindanao was lifted on January 1, 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy. These armed conflict and terror attacks could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

#### ***Territorial disputes***

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. China claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its

military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the “nine-dash line” claim of China is invalid. The Philippine government, under the Duterte administration, has taken action to de-escalate tensions concerning the territorial dispute with China.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors, including a significant depreciation of the Philippine Peso or increase in interest rate, may adversely affect consumer sentiment and lead to a reduction in consumer spending generally. This, in turn, could materially and adversely affect SMC’s financial condition and results of operations, and its ability to implement its business strategy and expansion plans.

### ***Natural catastrophes***

SMC’s business and operations could be severely disrupted by many factors, including accidents, breakdown or failure of equipment, interruption in power supply, human error, natural disasters, public epidemics, outbreak of diseases, and other unforeseen circumstances and problems. The Philippines has experienced a number of major natural catastrophes over the past years, including typhoons such as super typhoon “Rolly” in late October 2020, volcanic eruptions such as the Taal Volcano eruption in January 2020, earthquakes, tsunamis, mudslides, fires, droughts and floods related to El Niño and La Niña weather events. Natural catastrophes may materially disrupt and adversely affect the business, operations, and financial condition of SMC. There is no assurance that the insurance coverage SMC maintains for these risks will adequately compensate it for all damages and economic losses resulting from natural catastrophes.

### ***Downgrade of Philippine credit rating***

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents in the Philippines, such as SMC. Historically the Philippines’ sovereign debt has been rated relatively low by international credit rating agencies. As of December 31, 2019, the Philippines’ long-term foreign-currency denominated debt was rated Baa2 by Moody’s, BBB+ S&P Global Ratings, and BBB by Fitch. However, no assurance can be given that Fitch, Moody’s, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including SMC, to raise additional financing, and will increase borrowing and other costs. As of May 30, 2020, S&P maintained its BBB+ long-term credit rating for the Philippines with a stable outlook, and also affirmed its A-2 short-term credit rating for the Philippines. As of July 16, 2020, Moody has affirmed the Philippines Baa2 rating with stable outlook. As of January 10, 2021, Fitch affirms the Philippines’ long-term foreign-currency issuer default rating at BBB, noting that the outlook is stable.

### ***Corporate governance, disclosure and financial reporting standards***

There may be less publicly available information about Philippine public companies, including SMC, than is regularly made available by public companies in other countries. In addition, although the Company complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. The Philippine SEC considers as best practice for public companies such as SMC, to have at least three independent directors, or such number as to constitute one-third of the board, whichever is higher. While SMC has adopted the recommended best practices of the Philippine SEC and is compliant with Philippine laws, rules and regulations, a greater number of independent directors may be required in other jurisdictions.

### ***Foreign exchange controls***

Generally, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. However, the Monetary Board of the BSP, with the approval of the President of the Philippines, during a foreign exchange crisis or in times of national emergency, has the statutory authority to: (i) suspend temporarily or restrict sales of foreign exchange; (ii) require licensing of foreign exchange transactions; or (iii) require the delivery of foreign exchange to the BSP or its designee banks for the issuance and guarantee of foreign currency-denominated borrowings. The Philippine government has, in the past, instituted restrictions on the conversion of Philippine Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency obligations.

SMC purchases certain critical key inputs from abroad and requires foreign currency to make these purchases. There is no assurance that the Philippine government will not impose economic restrictions or regulatory controls that may restrict free access to foreign currency. Any such restrictions could severely curtail the ability of SMC to pay for certain key inputs or to meet its foreign currency payment obligations, which could materially and adversely affect its financial condition and results of operations.

### **RISKS RELATED TO THE BOND OFFERING**

#### ***The Bonds may not be a suitable investment for all investors.***

Each potential investor of the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic conditions, interest rate, foreign exchange rate, Issuer's credit risk, and other factors that may affect its investment and its ability to bear the applicable risks.

Each investor should have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds.

#### ***An active or liquid trading market for the Bonds may not develop.***

The Bonds are a new issue of securities for which there is currently no trading market. Even if the Bonds are listed on the PDEX, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets, and the overall market for debt securities among other factors, which may affect liquidity. Although the Bonds are intended to be listed on PDEX as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds will develop and, if such a market were to develop the Underwriters are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company, and other factors that generally influence the market prices of securities.

The Company has no control over this risk as active trading of the Bonds is highly dependent on the Bondholders.

#### ***The Issuer may be unable to redeem the Bonds.***

Upon maturity, the Issuer will be required to redeem all of the Bonds. At such event, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered Bonds would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Issuer.



The Issuer has a very strong business franchise in the Philippines. It has a robust recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds.

***Holders of the Bonds may not be able to reinvest at a similar return on investment.***

Prior to the relevant maturity dates of the Bonds, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Bonds on the relevant Optional Redemption Dates (see “*Description of the Bonds*”). Subject to the specific terms and conditions of the Bonds, in the event that the Company exercises this early redemption option, all Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

***The Bondholder may face possible gain or loss if the Bonds are sold at the secondary market.***

As with all fixed income securities, the Bonds’ market values move (either up or down) depending on the change in interest rates. The Bonds when sold in the secondary market are worth more if interest rates decrease since the Bonds have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Bonds are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Bonds.

***The Bonds may not be able to retain its credit rating.***

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

***The Bonds have no preference under Article 2244(14) of the Civil Code.***

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference of priority over the Bonds as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or Bondholder hereinafter have a preference or priority over the Bonds as a result of notarization, then the Issuer shall, at the Issuer’s option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds as may be practicable.

**Risks Related to Statements Made in this Prospectus**

Certain statistics in this Prospectus relating to the Philippines, the industries and markets in which the business of the Company operates, including statistics relating to market size and market share, are derived from various government and private publications, including those produced by industry associations and research groups. This information has not been independently verified and may not be accurate, complete, up-to-date or consistent with other information compiled within or outside the Philippines.

## USE OF PROCEEDS

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The intended use of proceeds for each offer of Bonds being offered shall be set out in the relevant Offer Supplement under “*Use of Proceeds*”.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise.

The Company undertakes that it will not use the net proceeds from the Offer for any purpose, other than as discussed in the Offer Supplement. The Company’s cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Company’s management may find it necessary or advisable to alter its plans. In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Company shall inform the SEC, the PDEX, and the holders of the Bonds in writing at least 30 days before such deviation, adjustment or reallocation is implemented. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by the Board or the Executive Committee, and disclosed to the PDEX.

## **DETERMINATION OF OFFER PRICE**

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Each series of the Bonds shall be issued on a fully paid basis and at an issue price that is at par.

## **PLAN OF DISTRIBUTION**

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The detailed plan of distribution and underwriting arrangement for each offer of Bonds shall be set out in the relevant Offer Supplement.

# THE COMPANY

## OVERVIEW

San Miguel Corporation (“SMC”, the “Company”, or the “Issuer”), together with its subsidiaries (collectively with the Company 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 GDP in 2020.<sup>4</sup>

Originally founded in 1890 as a single product brewery in the Philippines, SMC today owns market-leading businesses and has investments in various sectors, including beverages, food, packaging, energy, fuel and oil, infrastructure, property development and leasing, cement, car distributorship, and banking services. SMC has a portfolio of companies that is interwoven into the economic fabric of the Philippines, benefiting from, as well as contributing to the development and economic progress of the nation. The common shares of SMC were listed on the Manila Stock Exchange (now The Philippine Stock Exchange, Inc., the “PSE”) on November 5, 1948 and as of December 29, 2020, SMC had a market capitalization of ₱305,377 million, with a common share price of ₱128.10.

SMC, through its subsidiaries and affiliates, has become a market leader in its businesses in the Philippines with an extensive portfolio of products that include beer, spirits, non-alcoholic beverages, 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.

Since adopting its business diversification program in 2007, SMC has channelled 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 SMC to access capital, present different growth opportunities and mitigate the impact of downturns and business cycles.

For the year ended December 31, 2020, consolidated sales were ₱725,797 million, gross profit was ₱149,348 million, and EBITDA was ₱125,929 million.

SMC’s five key business groups, most of which are market leaders in their respective industries, include the following (1) food and beverage; (2) packaging; (3) fuel and oil; (4) energy; and (5) infrastructure. In addition, SMC has investments in other businesses such as property development and leasing, cement, car distributorship, and banking services.

The following table sets forth the contribution of each of the businesses of SMC to its revenues for the periods indicated:

|                        | 2018             |               | 2019             |               | 2020            |               |
|------------------------|------------------|---------------|------------------|---------------|-----------------|---------------|
|                        | Sales            | %             | Sales            | %             | Sales           | %             |
|                        | (in ₱ millions)  |               | (in ₱ millions)  |               | (in ₱ millions) |               |
| Food and Beverage..... | 286,378          | 27.9          | 310,785          | 30.5          | 279,290         | 38.5          |
| Packaging .....        | 37,325           | 3.6           | 37,874           | 3.7           | 31,504          | 4.3           |
| Fuel and Oil.....      | 557,386          | 54.4          | 514,362          | 50.4          | 286,033         | 39.4          |
| Energy .....           | 120,103          | 11.7          | 135,060          | 13.2          | 115,029         | 15.8          |
| Infrastructure .....   | 24,530           | 2.4           | 23,406           | 2.3           | 14,565          | 2.0           |
| Others .....           | 38,568           | 3.8           | 40,887           | 4.0           | 37,799          | 5.2           |
| Eliminations .....     | (39,347)         | (3.8)         | (41,872)         | (4.1)         | (38,423)        | (5.3)         |
| <b>Total.....</b>      | <b>1,024,943</b> | <b>100.00</b> | <b>1,020,502</b> | <b>100.00</b> | <b>725,797</b>  | <b>100.00</b> |

<sup>4</sup> based on data from the SMC consolidated revenues in 2020 divided by Philippine’s total revenue sourced from Philippine Statistics Authority.

Each of these key business groups and the primary entities through which such businesses are conducted are summarized below.

## Food and Beverage

On June 29, 2018, SMC completed the consolidation of its beer and non-alcoholic (“**NAB**”) businesses, spirits and food businesses through its subsidiary, San Miguel Food and Beverage, Inc. (“**SMFB**”, formerly San Miguel Pure Foods Company, Inc., and such consolidation, the “**SMFB Consolidation**”).

SMFB is a leading food and beverage company in the Philippines. The brands under which SMFB produces, markets and sells 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 and *Vino Kulafu* for Chinese wine, *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. 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. (“**San Miguel Foods**”), Magnolia, Inc., 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.

SMFB is listed on the PSE under stock code “FB” and as of December 29, 2020, had a market capitalization of ₱395,918 million, with a common share price of ₱67.00. As of December 31, 2020, SMC’s ownership interest in SMFB was 88.76%.

Selected operating data for SMFB is provided below for the periods indicated:

|                                                   | For the years ended<br>December 31, |         |         |
|---------------------------------------------------|-------------------------------------|---------|---------|
|                                                   | 2018                                | 2019    | 2020    |
|                                                   | (in millions, except percentages)   |         |         |
|                                                   | ₱                                   | ₱       | ₱       |
| Sales .....                                       | 286,378                             | 310,785 | 279,290 |
| Gross profit.....                                 | 92,142                              | 98,755  | 79,051  |
| Gross profit margin <sup>(1)</sup> .....          | 32.2%                               | 31.8%   | 28.3%   |
| EBITDA <sup>(2)</sup> .....                       | 54,725                              | 58,667  | 46,776  |
| EBITDA margin <sup>(3)</sup> .....                | 19.1%                               | 18.9%   | 16.7%   |
| Net income before tax .....                       | 43,361                              | 46,107  | 31,788  |
| Net income before tax margin <sup>(4)</sup> ..... | 15.1%                               | 14.8%   | 11.4%   |

### Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

## Packaging

The packaging business is a total packaging solutions business servicing many of the leading food, pharmaceutical, chemical, beverages, spirits, and personal care manufacturers in the region. The packaging business is comprised of San Miguel Yamamura Packaging Corporation (“**SMYPC**”) and its subsidiaries, San Miguel Yamamura Packaging International Limited (“**SMYPIL**”) and its subsidiaries, SMC Yamamura Fuso Molds Corporation (“**SYFMC**”), **CAI**, Mincorr and Wine Brothers Philippines Corporation, collectively the “**Packaging Group**.” The Packaging Group has one of the largest packaging operations in the Philippines, producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum

cans, paper cartons, flexibles packaging, and other packaging products and services such as beverage toll filling for aluminum cans, PET and glass bottles as well as logistics services. As of December 31, 2020, the Packaging Group has 36 packaging facilities located across the Asia-Pacific Region. These facilities are located in the Philippines (glass, molds for glass and plastics, metal, plastics, composite, paper, toll filling, and logistics services), China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (trading of packaging products, wine closures, wine filling facilities, retail/online packaging, cargo protection, and materials handling) and New Zealand (trading and plastics). As of December 31, 2020, SMC's ownership interest in SMYPC was 65.00%.

Selected operating data for the Packaging business is provided below for the periods indicated:

|                                                          | For the years ended<br>December 31, |        |         |
|----------------------------------------------------------|-------------------------------------|--------|---------|
|                                                          | 2018                                | 2019   | 2020    |
|                                                          | (in millions, except percentages)   |        |         |
|                                                          | ₱                                   | ₱      | ₱       |
| Sales .....                                              | 37,325                              | 37,874 | 31,504  |
| Gross profit .....                                       | 9,776                               | 10,760 | 7,942   |
| Gross profit margin <sup>(1)</sup> .....                 | 26%                                 | 28%    | 25%     |
| EBITDA <sup>(2)</sup> .....                              | 5,609                               | 5,824  | 3,488   |
| EBITDA margin <sup>(3)</sup> .....                       | 15%                                 | 15%    | 11%     |
| Net income (loss) before tax .....                       | 3,107                               | 1,480  | (1,371) |
| Net income (loss) before tax margin <sup>(4)</sup> ..... | 8.0%                                | 4.0%   | (4%)    |

Notes:

- (1) Calculated as gross profit divided by revenues.
- (2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
- (3) Calculated as EBITDA divided by revenues.
- (4) Calculated as net income before income tax divided by revenues.

## Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (“**Petron**”), which is the largest integrated oil refining and marketing company in the Philippines and is a strong third player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and refines crude oil and markets and distributes refined petroleum products in the Philippines and Malaysia. In the Philippines, Petron operates a refinery in Bataan (the “**Limay Refinery**”), one of the most modernized in the region and the only one in the country, which Petron believes supplies approximately 30.0% of the country's total fuel requirements. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day, processing crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha and petrochemical feedstock such as benzene, toluene, mixed xylene, and propylene.

The common shares of Petron are listed on the PSE under stock code “PCOR”. The market capitalization of Petron was ₱37,407 million, with a common share price of ₱3.99, as of December 29, 2020. As of December 31, 2020, SMC's direct and indirect ownership in Petron was 68.26%.

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:

|                                          | For the years ended<br>December 31, |         |         |
|------------------------------------------|-------------------------------------|---------|---------|
|                                          | 2018                                | 2019    | 2020    |
|                                          | (in millions, except percentages)   |         |         |
|                                          | ₱                                   | ₱       | ₱       |
| Sales .....                              | 557,386                             | 514,362 | 286,033 |
| Gross profit .....                       | 34,562                              | 30,507  | 8,713   |
| Gross profit margin <sup>(1)</sup> ..... | 6.2%                                | 5.9%    | 3.0%    |
| EBITDA <sup>(2)</sup> .....              | 31,803                              | 29,902  | 4,260   |

|                                                   | For the years ended<br>December 31, |       |          |
|---------------------------------------------------|-------------------------------------|-------|----------|
|                                                   | 2018                                | 2019  | 2020     |
|                                                   | (in millions, except percentages)   |       |          |
|                                                   | ₱                                   | ₱     | ₱        |
| EBITDA margin <sup>(3)</sup> .....                | 5.7%                                | 5.8%  | 1.5%     |
| Net income before tax.....                        | 10,455                              | 3,737 | (16,211) |
| Net income before tax margin <sup>(4)</sup> ..... | 1.9%                                | 0.7%  | (5.7%)   |

Notes:

- (1) Calculated as gross profit divided by revenues.
- (2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.
- (3) Calculated as EBITDA divided by revenues.
- (4) Calculated as net income before income tax divided by revenues.

## Energy

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 more recently, BESS. Based on the total installed generating capacities reported in the ERC Resolution No. 05, Series of 2019 dated June 2019 (“**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity as of December 31, 2020 comprises approximately 20% of the National Grid, 27% of the Luzon Grid, and 8% of the Mindanao Grid. As of December 31, 2020, SMC’s ownership interest in SMC Global Power was 100.00%.

The table below sets forth the gross profit margin, EBITDA margin and net income before tax margin of SMC Global Power for the periods indicated:

|                                                   | For the years ended<br>December 31, |         |         |
|---------------------------------------------------|-------------------------------------|---------|---------|
|                                                   | 2018                                | 2019    | 2020    |
|                                                   | (in millions, except percentages)   |         |         |
|                                                   | ₱                                   | ₱       | ₱       |
| Sales.....                                        | 120,103                             | 135,060 | 115,029 |
| Gross profit.....                                 | 39,285                              | 43,302  | 43,133  |
| Gross profit margin <sup>(1)</sup> .....          | 32.7%                               | 32.1%   | 37.5%   |
| EBITDA <sup>(2)</sup> .....                       | 10,717                              | 8,297   | 12,664  |
| EBITDA margin <sup>(3)</sup> .....                | 8.9%                                | 6.1%    | 11.0%   |
| Net income before tax.....                        | 12,202                              | 21,627  | 26,797  |
| Net income before tax margin <sup>(4)</sup> ..... | 10.2%                               | 16.0%   | 23.3%   |

Notes:

- (1) Calculated as gross profit divided by revenues.
- (2) EBITDA is calculated as (a) net income (excluding items between any or all of SMC Global Power and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case, excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investments and aggregated fixed payments made to PSALM.
- (3) Calculated as EBITDA divided by sales.
- (4) Calculated as net income before income tax divided by sales.



## Infrastructure

The infrastructure business, conducted through SMHC, consists of investments in companies that hold long-term concessions in the infrastructure sector in the Philippines. Currently operating toll roads include the SLEX, Skyway Stages 1, 2 and 3, STAR, TPLEX, and the NAIAX. The Skyway Stage 3 has been opened to motorists while awaiting formal toll operation permit from the TRB. Ongoing projects include Skyway 4, the extension of SLEX-TR4, SLEX-TR5, PAREX, MRT-7, and MIA. SMHC also operates and is currently expanding the Boracay Airport and has investments in MNHPI and LCWDC for the Bulacan Bulk Water Supply Project. As of December 31, 2020, SMC's ownership interest in SMHC was 100%.

Selected financial highlights for the infrastructure business are provided below for the periods indicated:

|                                                   | For the years ended<br>December 31,  |        |         |
|---------------------------------------------------|--------------------------------------|--------|---------|
|                                                   | 2018                                 | 2019   | 2020    |
|                                                   | (in millions, except in percentages) |        |         |
|                                                   | ₱                                    | ₱      | ₱       |
| Sales .....                                       | 24,530                               | 23,406 | 14,565  |
| Gross profit.....                                 | 14,893                               | 14,730 | 5,989   |
| Gross profit margin <sup>(1)</sup> .....          | 61.0%                                | 63.0%  | 41%     |
| EBITDA <sup>(2)</sup> .....                       | 17,423                               | 17,177 | 2,444   |
| EBITDA margin <sup>(3)</sup> .....                | 71.0%                                | 73.0%  | 17%     |
| Net income before tax .....                       | 8,899                                | 8,597  | (1,003) |
| Net income before tax margin <sup>(4)</sup> ..... | 36.0%                                | 37.0%  | -7%     |

*Notes:*

- (1) Gross Profit Margin is calculated by sales less cost of sales divided by sales.
- (2) EBITDA is calculated as net income before income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), and depreciation and amortization and impairment losses.
- (3) EBITDA margin is calculated by EBITDA divided by sales.
- (4) Net income before tax margin is calculated by net income before income tax divided by sales.

The decrease in traffic volume in 2020 was caused by the quarantine restrictions due to the COVID-19. As the Philippine economy continues to bounce back with easing of the quarantine restrictions, SMHC believes that there will be an upward trend on traffic volume and will soon hit pre-pandemic numbers.

|                            | For the years ended<br>December 31,                  |         |         |
|----------------------------|------------------------------------------------------|---------|---------|
|                            | 2018                                                 | 2019    | 2020    |
|                            | Annual Average Daily Traffic ("AADT") <sup>(1)</sup> |         |         |
| SLEX TR 1, 2 & 3 .....     | 355,516                                              | 366,189 | 274,931 |
| Skyway Stages 1 & 2 .....  | 251,361                                              | 257,052 | 167,686 |
| STAR .....                 | 57,472                                               | 62,453  | 50,441  |
| TPLEX <sup>(2)</sup> ..... | 22,272                                               | 24,370  | 14,757  |
| NAIAx .....                | 97,561                                               | 112,708 | 44,184  |

*Notes:*

- (1) AADT refers to the average number of vehicles per day counted per exit in a toll road. Data is sourced through the Accounts Management System of each of the toll roads and are monitored by the Toll Monitoring Department of SMHC.
- (2) These reflects AADT for partial operations of Section 1 in 2016, Sections 1 and 2 in 2017 and Sections 1, 2 and 3A for 2018 until July 14, 2020. The remaining section 3B (with two exits – Sison and Rosario) was opened on July 15, 2020.

## Others

Other investments of SMC include property development and leasing, through San Miguel Properties, Inc. ("SMPI"), cement through Nothern Cement Corporation ("NCC"), car distributorship through SMC Asia Car Distributors Corp., and banking services through BankCom.

## RECENT DEVELOPMENTS

### The COVID-19 Pandemic

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization. As of August 15, 2020, there have been over twenty million confirmed cases worldwide, with over 157,918 confirmed cases in the Philippines as of the same date. Countries have taken measures in varying degrees to contain the spread, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

The Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine (“**ECQ**”) was imposed on the island of Luzon, including Metro Manila. Under the ECQ guidelines, restrictions on movement outside of the residence were set in place (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing of basic food products, medicine, medical devices/equipment and essential products such as hygiene products, and delivery services transporting food, medicine, and essential goods, as well as essential sectors such as hospitals, power, and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity.

Initially, the ECQ period was set to end by April 12, 2020 but was subsequently extended for two-week periods until May 15, 2020, when the ECQ was lifted in certain areas and either a Modified ECQ (“**MECQ**”), General Community Quarantine (“**GCQ**”) or Modified GCQ (“**MGCQ**”) was implemented instead. On June 1, 2020, Metro Manila was placed under GCQ, which allowed certain sectors, including agriculture, food manufacturing and all supply chains, packaging and raw materials, supermarkets and logistics, among others, to resume full operations. On August 4, 2020, Metro Manila was again placed on MECQ in view of the continuing rise of COVID-19 cases. On August 31, 2020, Metro Manila and other cities have been reverted to GCQ until October 31, 2020. The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations. The Philippine government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities.

Due to the rising cases, Metro Manila and other nearby provinces were placed under a two-week ECQ that started on March 29, 2021. On April 11, 2021, MECQ was declared for the period April 12 – 30, 2021.

While most of the Luzon island and other provinces have been placed on various levels of community quarantine, the government has commenced vaccination for those considered as high-risk individuals including healthcare workers, senior citizens, and individuals with comorbidities. The vaccination of health care workers in the country started on February 15, 2021 and to date, the Government continues its vaccination drive.

### *Impact on the Company*

Despite a strong start in the first two months of 2020, the Company reported an expected drop in its first half performance due to adverse conditions and the impact of the COVID-19 pandemic, which grounded most economic activities to a halt. The Company, however, saw its businesses rebound by the end of the second quarter of 2020 as it continues to respond nimbly to the new normal, through an agile operating model built around consumers along with the reinforcement of its culture of *malasakit*. As a result, consolidated revenues for the first half declined by 31% compared to the same period last year. The Company believes, however, that it was able to quickly adapt to the challenges and successfully harness the synergies derived from its various businesses to promptly respond to, and address the needs of, the nation. The Company’s business continuity plan was immediately implemented when the ECQ came into effect, with the end-goal of ensuring that essential operations could continue. In spite of initial difficulties during the early days of the ECQ, the Company continued to provide essential services and products such as water, power, fuel products, and food to the public. The Company also kept its expressways open during the lockdown as transportation remained vital to keep healthcare and support systems running.

Moreover, the Company innovated in its approach to conducting its business operations and executed new programs to fulfill its obligations and serve consumers. The Company believes that these new strategies, which have proven to be effective, will enable the Company to better adapt to the “new normal.” In particular, the Company will continue to leverage and improve on electronic systems to support organizational and consumer needs and further the utilization of digital technology to facilitate work from home arrangements, among others. Through these new programs and strategies, the Company expects to achieve effective and efficient alternatives to serving customers while protecting the well-being of all stakeholders.

#### *Food and Beverage*

SMFB’s consolidated revenues for the year ended December 31, 2020 was 10% lower than the same period in 2019, mainly brought about by the significant decline in the Beer and Spirits sales as a result of liquor bans implemented in certain areas in Metro Manila and Luzon during the ECQ, which was partly offset by higher sales from San Miguel Foods, particularly from the Prepared and Packaged Food segment.

Prior to the implementation of the ECQ, SMFB proactively took steps to secure its inventory and supply chain. At each of its critical facilities, lean work teams ramped up the production of poultry, fresh and processed meats, canned goods, flour, biscuits, coffee, and dairy products. Despite some initial challenges, capacity in SMFB’s food production facilities hovered around 95% on average for the duration of the ECQ (*i.e.*, the period from March 16 to May 15, 2020), allowing SMFB to quickly replenish stocks and demonstrating its ability to provide sufficient food supply.

To ensure that operations continued unhampered, the Company put in place measures for its employees’ health and safety. Offices and conference rooms were converted into living quarters for workers forced to stay in for safety reasons. Shuttle services were provided for the Company’s merchandisers, and bicycles were given to employees who live close by. San Miguel Foods also became the hub for much of the Company’s relief efforts.

To address the challenge of accessibility to food, the Company, through SMFB, Petron and San Miguel Integrated Logistics Services, Inc. (“**SMILSI**”), set up alternative, non-traditional selling channels that provided consumers easier and safer access to its products. For example, SMFB expanded its “*Manukang Bayan*” rolling micro-stores program, providing direct access to *Magnolia* poultry products to consumers. Through SMILSI, the Company deployed more than thirty (30) 10-ton reefer van trucks to bring larger quantities of poultry and other frozen products to different Petron service stations across Metro Manila.

In addition to working closely with homeowners’ associations and local officials to bring its products closer to residential communities such as barangays and subdivisions, SMFB launched new online ordering platforms, [order.sanmiguelfoods.com](http://order.sanmiguelfoods.com) and [themall.sanmiguel.com.ph](http://themall.sanmiguel.com.ph). SMFB also leveraged on other e-commerce sites such as Lazada, Zalora, Grab Mart, Shopee, and Panda Mart, for the sale of its products, resulting in the average sales volume of SMFB’s food products in these channels increasing by more than 400%, compared to pre-COVID-19 levels. The increased use of e-commerce platforms improved product availability while providing convenience and ensuring the safety of consumers.

For San Miguel Brewery Inc. (SMB), it has put in place programs to further support the shift from on-premise to home consumption. Dealers, wholesalers, and modern trade outlets were provided support to help develop and actively penetrate online selling channels. SMB has been strengthening 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 and for the first time, the Oktoberfest was held over Facebook.

Similarly, Ginebra San Miguel Inc. strengthened its marketing campaigns through Facebook and YouTube which garnered strong following from consumers.

#### *Packaging*

The Packaging Group registered ₱31.5 billion in revenues for 2020, down 17% from the previous year, similarly reflecting the effects of the ECQ. Volumes were dragged down by lower orders from 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 the improvement in export market. The performance of Australia, Malaysia, and China operations were stable.

With effective cost management initiatives, the Packaging Group generated operating income of ₱961 million.

#### *Fuel and Oil*

Petron's service stations remained open to help ensure the flow of essential goods and to serve the Government and frontliners, although demand for fuel was low given that transportation and mobility was severely restricted during the ECQ period. In addition, the drop in global oil prices in March caused successive rollbacks in pump prices, resulting in a decline of 44% in Petron's consolidated revenues for the year ended December 31, 2020 compared to the same period in 2019.

#### *Energy*

SMC Global Power's facilities continued to run efficiently, even as measures to save on fuel were implemented. SMC Global Power's consolidated revenues for the year ended December 31, 2020 were 15% lower compared to the same period in 2019.

#### *Infrastructure*

During the ECQ and GCQ, SMHC kept more than 80% of its toll roads open despite the massive drop in vehicular traffic, primarily to ensure the efficient flow of essential goods, and to serve the Government and frontliners. As a result, toll roads registered a 33% volume decline and SMHC's consolidated revenues decreased by 38% for the year ended December 31, 2020 compared to the same period in 2019.

### **Corporate Social Responsibility and Community Engagement**

The Company's multi-prong response to the COVID-19 pandemic included a concerted food donation drive, various initiatives to protect and assist frontliners, particularly medical and healthcare workers, and providing other support to the Government.

#### *Food Donation Drive*

The SMC Group mounted numerous donation drives to assist the Government and the public in easing the economic burden brought about by the lockdown and tapped partners in various sectors to bring food donations to as many locations and communities as possible. Through the local government units ("LGUs"), non-profit organizations, charitable institutions, and church-based groups, SMC facilitated the distribution of free food products to over 200 locations nationwide as of June 30, 2020—possibly the largest food donation drive in the Company's history.

As of December 31, 2020, the Company's efforts resulted in over ₱500 million worth of food given out to LGUs nationwide, seven national government agencies, more than 100 non-profit organizations, and various units of the Philippine National Police and Armed Forces of the Philippines. In addition, the Company sourced and distributed over 1.1 million kilograms of rice.

San Miguel Mills distributed flour (free of charge) through the LGUs to bakers' associations, allowing small bakeries and businesses to manage costs and, at the same time, provide vitamin-fortified bread and *pandesal* to urban poor communities. For its part, SMB donated drinking water in cans. SMB's logistical reach, combined with SMILSI and GSMI's own extensive networks, allowed the Company to reach barangays and municipalities throughout the country.

Petron offered its network of service stations to boost the Department of Agriculture's ("DA") "*Kadiwa Ni Ani at Kita*" program, to help farmers sell their produce to consumers in Metro Manila. At the same time, the DA helped the Company tap farmer-cooperatives nationwide to secure its raw material requirements, and help support farm incomes. Examples of these initiatives included guaranteed offtake for corn and dairy farmers. By June 2020, the Company had purchased 78 million kilograms of corn, and 5,000 litres of excess carabao's milk (for donation) to help carabao farmers and provided research and development support for dairy farmers for long-term resilience. In addition to this, last September, the Company provided 134 bags of flour to the Philippine Carabao Center in Nueva Ecija to support their milky bun feeding project that targets undernourished children.

### *Protecting and Helping Medical Frontline Workers*

The Company also devoted resources in assisting the Government and medical frontliners in their efforts to fight COVID-19. Recognizing that the battle against COVID-19 continues to be waged in hospitals by the country's doctors, nurses, and health workers, the Company allotted ₱397 million to acquire various life-saving medical equipment, including polymerase chain reaction ("PCR") testing machines, testing kits, personal protective equipment ("PPEs") and other medical donations, all of which are vital to the operations of medical practitioners and institutions. In addition, the Company donated ₱9.1 million to fund the construction of ten emergency quarantine facilities with a total capacity of 150 beds in various military camps nationwide and donated one ambulance unit.

As of June 30, 2020, the Company distributed almost 55,000 sets of medical-grade PPEs to more than 100 government and private hospitals throughout Luzon, Visayas, and Mindanao, as well as to the Office of the Civil Defense.

As of December 31, 2020, SMC donated five sets of PCR testing machines and high-throughput RNA extraction systems to different government hospitals, which boosted capacity by 15,000 tests a day, effectively doubling the country's testing capacity at that time. The Company also delivered the equivalent of 55,000 tests to further boost Government's testing capacity.

The Company provided some 5,000 medical frontliners in Cebu with life insurance of ₱2-million each. This is to show our deep appreciation and continued support for medical frontliners battling the pandemic

Across the Company, assistance and support to medical frontliners have also been provided in various forms. For example, GSMI temporarily suspended its production of liquor products and switched to the production of 70% ethyl alcohol to address the severe shortage on alcohol production and as of December 31, 2020, SMC, through GSMI, had donated 97.1 million liters of alcohol, amounting to ₱86 million, to hospitals, LGUs, and other institutions; the infrastructure business suspended collection of toll fees from health care workers at all its tollways (amounting to a waiver of ₱156 million in fees) and provided free fuel amounting to ₱6.2 million for Government's *Libreng Sakay* programs for medical workers; and Petron Value Card holders were encouraged to use their Petron Value Cards for donations to COVID-19 referral hospitals.

### *Quarantine Facilities*

As of December 31, 2020, SMC provided ₱3 million cash assistance to the National Task Force in putting-up quarantine facilities in Metro Manila.

### *Ensuring Employee Safety and Well-Being*

To ensure a safe return to work for the Company's employees, SMC purchased PCR testing kits to cover the estimated 70,000 employees, consultants, partners and service providers in the SMC Group's system. On July 3, 2020, SMC opened its own COVID-19 testing center, which can process up to 4,000 tests daily. The capacity of the testing facility may be expanded to 12,000 tests, if necessary. The Company has been cautiously allowing employees to return to the workplace and has provided protective gear and vitamins to employees as well as certain incentives in addition to regular pay.

The Company has also taken measures to ensure employee safety and well-being, which include, but are not limited to, checking the temperature of employees and other persons when they enter its offices and facilities, maintaining an adequate supply of alcohol and hand sanitizers for use at the premises, requiring employees to wear masks and other protective clothing as appropriate, minimizing in-person meetings, and implementing additional cleaning and sanitization routines.

With a workforce consisting of approximately 70,000 employees, consultants, and partners, the SMC Group affects the lives of many. To this end, the Company ensured that all salaries were continuously paid throughout all quarantine periods, so its employees could focus on their work, families, and contribution to the Company's efforts.

The Company also spent ₱2 million to construct a quarantine facility for the exclusive use of SMC group employees who will test positive as a preventive measure against spreading the virus to the workplace as well as to protect the employee's family.

### *Additional information*

SMC provided some 8,000 pieces of *nutribun* to thousands of locally-stranded individuals (“**LSIs**”) at the Rizal Memorial Stadium who were waiting to avail of the Government’s *Balik Probinsya* program. The Company provided a total of 14,640 free meals to feed some 369 LSIs three-times-a-day at the Philippine Ports Authority building and passenger terminal arrival areas at the Manila North Harbor, from June 29 to July 16. Most of the LSIs were also seafarers bound for Cagayan de Oro, Bacolod, and Iloilo during the said period.

Before the end of the year, SMC committed ₱900,000 worth of assistance to the *Pilipinas Kontra Gutom* campaign of the Government.

### **Other Recent Developments**

On January 4, 2021, GSMI redeemed and paid for 32,786,885 preferred shares held by the Company at a redemption price of ₱30.50 per share including all accumulated unpaid cash dividends, in accordance with the terms and conditions of the issuance. The Company remains to be the controlling indirect shareholder of GSMI through SMFB.

On January 21, 2021, the Company declared cash dividends on the preferred shares to be paid on April 5, 2021 as follows:

| <b>Class of Shares</b>                  | <b>Dividend Amount<br/>per share</b> |
|-----------------------------------------|--------------------------------------|
| Series 2 Preferred Shares – Subseries C | ₱ 1.50                               |
| Series 2 Preferred Shares – Subseries E | ₱ 1.18603125                         |
| Series 2 Preferred Shares – Subseries F | ₱ 1.27635                            |
| Series 2 Preferred Shares – Subseries G | ₱ 1.23361875                         |
| Series 2 Preferred Shares – Subseries H | ₱ 1.1854125                          |
| Series 2 Preferred Shares – Subseries I | ₱ 1.18790625                         |
| Series 2 Preferred Shares – Subseries J | ₱ 0.890625                           |
| Series 2 Preferred Shares – Subseries K | ₱ 0.84375                            |

Also, on January 21, 2021, the Company’s Board of Directors voted to elect Mr. John Paul L. Ang as a director of SMC, having determined that he has all the qualifications and none of the disqualifications to fill the vacancy in the Board of Directors of the Company. He replaced Mr. Reynaldo G. David who passed away on December 13, 2020. *For further description of Mr. John Paul L. Ang, please see “Management Section”.*

During its March 11, 2021 meeting, the Company’s Board of Directors declared cash dividends on the Company’s common shares in the amount of ₱0.35 per common share. The dividend payment date is on April 5, 2021.

Also, on March 11, 2021, the Board of Directors of the Company passed and approved a resolution for the redemption of the outstanding and issued Series “2” Preferred Shares - Subseries G (“**SMC2G Preferred Shares**”) at a redemption price of ₱75.00 per share, together with any unpaid cash dividends. On March 12, 2021, the Company requested the PSE for the suspension of trading of the 66,666,600 SMC2G Preferred Shares from March 15 to 30, 2021. On March 15, 2021, the Company issued a Notice of Redemption to all stockholders of record as of March 18, 2021 by publication and by mail. The SMC2G Preferred Shares, upon redemption, shall not be considered retired and may be re-issued by the Company. The trading of the SMC2G Preferred Shares was suspended upon redemption and may only be tradeable upon application by the SMC for lifting of trading suspension in the event the Company decides to re-issue these preferred shares in the future, subject to compliance with the listing rules of the PSE.

On April 8, 2021, Petron authorized the issuance of U.S. dollar-denominated senior perpetual capital securities. The U.S.\$ 550 million perpetual capital securities were priced at 5.95% p.a. on April 13, 2021 and were issued on April 20, 2021.

On April 8, 2021, the Company has made an announcement in the Singapore Stock Exchange on the redemption in full of the outstanding notes under its U.S.\$ 800 million 4.875% notes due 2023 which will be redeemed on

April 26, 2021.

## STRENGTHS AND STRATEGIES

### Strengths

SMC believes that its principal strengths include the following:

#### *Robust and diversified platform with broad exposure to the growth of the Philippine economy*

The Philippines is one of the fastest growing economies in the Southeast Asia. From 2009 to 2019, the nominal GDP in the Philippines grew from approximately ₱8,381 billion to ₱19,492 billion, according to Economist Intelligence Unit, representing a compound annual growth rate (“CAGR”) of 8.8%. While the Philippine GDP contracted by 9.6% in 2020 mainly due to the COVID-19 pandemic, the World Bank expects the Philippine economy to grow by 5.5% and 6.3% in 2021 and 2022, respectively. The Philippines has one of the youngest populations in Southeast Asia with a median age of 25 years in 2019, according to Euromonitor, and urbanization is expected to remain consistent at around 44.0% until 2022 according to GlobalData.

SMC 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 GDP in 2020. SMC is broadly exposed to the Philippine economy through its market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure, property development, cement and investments in car distributorship and banking services. This diversified portfolio aligns SMC to key sectors that it believes will benefit from the forecast growth of the Philippine economy.

#### *Market leading positions in key Philippine industries*

Many of the businesses of SMC are leaders in their respective markets.

**Food and Beverage:** SMFB holds market-leading positions across food and beverage categories with large addressable markets and attractive growth prospects. SMFB is a unique platform that offers an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in six categories, serving the full spectrum of a growing domestic population. In 2019, the Beer business had a market share by volume of 95.1% and has consistently held at least 90% market share by volume since 2000, according to GlobalData. As of December 31, 2020, the Spirits business, had leading market share in the gin category by volume of 92%, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of December 31, 2020, the Food Division, is a market leader in several categories: 63.2% for hotdogs, 25.8% for corned meats, 22.8% for cheese, 41.6% for refrigerated butter, 94.5% for refrigerated margarine, and 97.9% for non-refrigerated margarine, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of September 30, 2020, its luncheon meats segment had 13.4% market share, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). Likewise, based on figures at the end of 2019, the Food Division had market share of 22.8% for feeds.

SMFB is an integral part of the Filipino lifestyle for more than a century and is present in its consumers’ lives at every meal and occasion, guided by the company slogan of “*Celebrating Life*”, SMFB believes that its products are part of the daily lives of its consumers, providing sustenance and enjoyment to families through trusted food brands and celebrating friendships and camaraderie with a world-class portfolio of beer and NAB, spirits and food products. The product portfolio of SMFB is suitable for any occasion throughout the year, whether it be for everyday consumption or for the most significant life events, and continuously evolves to cater to consumer tastes and preferences.

**Packaging:** The Packaging Group has one of the largest packaging operations in the Philippines, producing glass containers, metal crowns and caps, plastic crates, pallets and other plastic packaging, aluminum cans, paper cartons, flexibles packaging and other packaging products and services, such as beverage toll filling for aluminum cans, PET and glass bottles as well as logistics services. The packaging business 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.

As of December 31, 2020, the Packaging Group has 36 packaging facilities located in the Philippines (glass, molds for glass and plastics, metal, PET, composite, paper, toll filling and logistics services), in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films and woven bags), Australia (glass, trading, wine closures, wine filling facilities, retail/online packaging, cargo protection and materials handling) and New Zealand (trading and plastics).

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.

**Fuel and Oil:** Petron is a leading integrated oil refining and marketing company in the Philippines, with an overall market share of 26.5% of the Philippine oil market as of December 31, 2020, in terms of sales volume based on Petron estimates using its internal assumptions and calculations and industry data from the DOE. In the Philippines, Petron owns and operates the largest petroleum refinery complex, with a total crude oil distillation capacity of 180,000 barrels per day, which is 70,000 barrels per day higher compared to the only other operating petroleum refinery in the Philippines. Through its network of more than 2,400 retail service stations in the Philippines as of December 31, 2020, representing approximately 25.0% of the country's total service station count, Petron sells gasoline, diesel, and kerosene to private motorists and to the public transport sector. Approximately 34% of service stations are company-owned-dealer-operated service stations (“CODOs”) and 66% are dealer-owned-dealer-operated service stations (“DODOs”).

As of December 31, 2020, Petron's LPG distribution network includes more than 1,100 branch stores and more than 1,900 service stations where Petron sell its LPG brands *Petron Gasul* and *Fiesta Gas* to households and other consumers. Meanwhile, Petron's Lubes distribution network includes 41 car care centres, 112 auto/motorcycle care shops, and more than 1,900 service stations selling lubes.

**Energy:** 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 more recently, BESS. Based on the total installed generating capacities reported in the 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, as of December 31, 2020

**Infrastructure:** SMHC has become one of the major infrastructure companies in the country, with concessions in toll roads, airport, mass rail transit, and bulk water. SMHC has rights to approximately 787.54 kilometers of total road length serving Metro Manila and other fastgrowing regions of Luzon.

### ***Operating businesses provide sustainable stream of income and cash flows***

SMC's food and beverage and packaging businesses have historically provided the Company with a sustainable stream of income and have demonstrated resilience during the global financial crisis and provided SMC with a strong financial base from which to pursue its diversification strategy. For the year ended December 31, 2020, the Food and Beverage and Packaging businesses provided 40.7% of consolidated sales and 41.0% of total EBITDA of SMC. The fuel and oil energy and infrastructure businesses, on the other hand, contributed 59.3% and 59.0% of consolidated sales and total EBITDA, respectively.

### ***Well-positioned for significant future growth***

SMC is well-positioned for significant future growth. The food and beverage and packaging businesses continue to provide stable cash flow, while its fuel and oil, energy and infrastructure businesses have grown significantly and have enabled SMC to expand its ability to generate higher returns.

**Food and Beverage:** SMFB is well-positioned to benefit from the growing demand for food and beverage products driven by the country's sustained economic growth, expanding urbanization, favourable demographic patterns, and rapidly changing consumer tastes and preferences. In addition, the international beer business is experiencing increased sales and brand recognition in selected overseas markets such as Indonesia, Thailand, Singapore, Hong Kong, the Middle East, United States, and the Asia-Pacific region. GSMI is expanding its liquor business throughout the Philippines. Additionally, the Food Division is also streamlining its operations to improve the profitability of its established business segments, such as poultry, feeds, meat and flour, maximizing synergies across operations, and improving margins by shifting to stable-priced and value-added



products. The food and beverage business continue to introduce new products and new package formats to increase consumer interest and overall market size, as well as address the needs of an increasingly fragmenting market, especially in high growth segments.

**Packaging:** The Packaging Group aims to provide a total packaging solution to be able to serve a wide spectrum of customers thereby increasing its potential for higher growth. It also aims to benefit from trade liberalization and globalization in the ASEAN region as it further expands its exports market. Increasing environmental awareness also provides opportunities for the production of more environmentally friendly products such as heavy metal free paint glass and recycled PET resin. The Packaging Group plans to improve margins by developing alternative sources of raw materials and optimizing recycling efforts to lower its material costs.

**Fuel and Oil:** Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, which it believes have favourable oil industry dynamics. The Philippines operates under a free market scheme with movements in regional prices reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an automatic pricing mechanism (“APM”) that provides stable returns to fuel retailers. Petron owns refineries, in both the Philippines and Malaysia, capable of producing finished petroleum products. Petron believes that the downstream oil market in the Philippines is still underserved and has strong potential for growth. To capture this growth and further strengthen its market position, Petron plans to: (i) increase its retail outlets for fuels and LPG to improve market penetration ; (ii) introduce new products with differentiated and superior qualities; (iii) expand its lubes distribution network by putting up more sales channels such as new lubes outlets, sales centres and car care centres, and penetrating non-traditional outlets such as auto parts and repair shops; (iv) continue to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services to provide “value conscious” customers with a one-stop full service experience; and (v) intensify its dealer and sales personnel training to further improve customer service experience. These initiatives will support Petron’s growing retail business and continuing service station network expansion. As of December 31, 2020, Petron had 10 product terminals, a network of approximately 700 retail service stations and about 300 convenience stores in Malaysia under the Treats brand. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport (“KLIA”). The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal. Petron believes it has a competitive advantage against other oil players that only import finished petroleum products. Petron plans to continue its service station network expansion and seek growth in complementary non-fuel businesses.

**Energy:** Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW, which is broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. In its Power Demand and Supply Outlook 2018-2040 report as of October 2018, the DOE increased its forecasts and projected that additional 62,248 MW in installed capacity will be necessary, which is broken down as follows: 10,955 MW for baseload, 10,035 MW for peaking, 34,798 MW for variable, and 6,460 MW for flexible technologies. Moreover, based on SMC Global Power’s estimates, despite the continuing build-up of installed capacity, net reliable capacity remains insufficient to meet peak demand. This considers the entry of variable capacities, composed primarily of intermittent renewable energies such as solar and wind, as well as the introduction of flexible technologies, such as BESS, which compensate for the intermittency of the variable capacities.

For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. On average, construction of new power plants takes a minimum of three years. In addition, the depletion of the supply of natural gas from the Malampaya gas facility in Palawan (“Malampaya”), supplying 25.0% to 30.0% of net reliable capacity, may result in a reduction of energy generated by natural gas power plants beginning 2022. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption. SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the expected power supply shortage. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in hydroelectric power and solar power projects and complementary technologies such as BESS.

**Infrastructure:** SMHC believes there are significant opportunities in building or acquiring infrastructure assets in a growing economy that has historically under-invested in infrastructure. Since assuming the Philippine presidency in 2016, President Rodrigo R. Duterte and his administration have implemented the “*Build, Build, Build Program*”, which aims to increase infrastructure spending and build new railways, roads, airports and other key infrastructure at an expected cost of over ₱8 trillion spread over six years. Over the past ten (10) years, SMHC has built the TPLEX, SLEX, Skyway Stages 1, 2 and 3, STAR and NAIAx. It also operates and is currently expanding the Boracay Airport and is currently progressing the development of the following projects: Manila North Harbor, Skyway Stage 4, SLEX-TR4, and MRT-7. SMHC believes that its operating licenses will provide strong and stable long-term income streams.

### ***Synergies across businesses***

SMC believes there are significant opportunities to develop and increase synergies across many of its businesses, including:

**Ancillary business opportunities:** SMC believes there are opportunities within its food and beverage and packaging businesses to promote growth in its energy, infrastructure, and fuel and oil businesses, by using the relevant areas to conduct the Company’s activities. Initiatives would include building of service stations and retail outlets along toll roads which also serves as an opportunity for its other products from various businesses. Currently, SMC is pursuing several initiatives that will create possible savings and help promote its different brands. The Company and its businesses are evaluating the potential establishment of a unified rewards program for customers of various San Miguel products and services that Petron Service Stations, *Monterey Meat Shops*, *Treats* and Bank of Commerce can offer in a retail level/end-consumer level. Recently, the Company has established “[themall.sanmiguel.com.ph](https://themall.sanmiguel.com.ph)”, which provides the different products of SMFB and Petron. Another opportunity is maximizing the use of its radio-frequency identification technology (RFIDs) used for toll fee payment in tollroads, by expanding its access to the different Petron Service Stations and SMFB outlets.

**Immediate distribution channel:** The extensive retail distribution network of SMC provides an effective platform for roll-out of new products and services. For example, Magnolia Poultry expanded its “*Manukang Bayan*” rolling micro-stores program. In collaboration with SMC’s logistics arm—SMILSI, SMC deployed more than thirty (30) 10-ton reefer van trucks to bring larger quantities of poultry and other frozen products to different Petron service stations all over Metro Manila. Petron’s *Treats* stores in its service stations have also been used as outlets for SMC’s different products.

**Economies of scale:** SMC believes the size and scale of its distribution network operations provide significant economies of scale and synergies in production, research and development, distribution, management and marketing. The size and scale of SMC also result in substantial leverage and bargaining power with suppliers and retailers.

**Integration:** SMC plans to continue pursuing vertical integration across the established and strategic businesses. SMC’s integration strategies range from supplying the fuel and oil and power requirements to providing a total packaging solution of its various businesses. Sales bundling through existing and new channels has also been expanded. Monterey stores are now tied-up with San Miguel Foods’ online ordering system and *Treats* stores in Petron service stations are now carrying a wider portfolio of SMC products.

**Use of Technology:** In light of the recent COVID-19 situation, SMC has quickly innovated and executed new programs such as a new online ordering system, <https://themall.sanmiguel.com.ph> an online one-stop shop which promotes a safer and more convenient way for consumers to order SMC products. The increased use of e-commerce platforms also greatly improved product availability, providing more consumers not only convenience, but also added safety.

### ***Cohesive and experienced management team***

SMC has a highly experienced and loyal senior management team that has been with their respective businesses for an average of over 20 years. The management team has a deep knowledge and understanding of the Philippine operating environment and has been able to effectively manage the group of SMC companies through periods of crisis and instability in the Philippines. The management team has successfully directed the diversification strategy of SMC into energy, infrastructure and other businesses. SMC has expanded its expertise in managing its various businesses by retaining key management personnel from acquired companies in order to maintain their expertise and leverage their industry experience.

## **Strategies of SMC**

The principal strategies of SMC include the following:

### ***Enhance value of established businesses***

SMC aims to enhance the value of its established businesses by pursuing operational excellence, brand enhancement, improving product visibility, targeting regions where SMC has lower market share, implementing pricing strategies and pursuing efficiencies.

### ***Prudently diversify into industries that underpin the development and growth of the Philippine economy***

In addition to organic growth, SMC intends to continue to seek strategic acquisition opportunities or project proposals to position itself for the economic growth and industrial development of the Philippines. For example, on September 18, 2019, San Miguel Aerocity Inc. (“**SMAI**”) signed a concession agreement with DOTr to construct and operate the Manila International Airport (“**MIA**”) that is envisioned to be an aerotropolis, fill the gap and set the standard for a modern, world-class international airport that will address today’s and future capacity requirements for air travel in the Philippines.

### ***Identify and pursue synergies across businesses through vertical integration, platform matching and channel management***

SMC intends to create an even broader distribution network for its products and expand its customer base by identifying synergies across its various businesses. In addition, SMC continues to pursue plans to further integrate its production and distribution facilities for its food and beverage, packaging, energy, fuel and oil, and infrastructure businesses to enable additional cost savings and efficiencies.

To address the challenge of making food more accessible during the COVID-19 crisis, Petron, San Miguel Foods and SMILSI have set up alternative, non-traditional sales channels that provide consumers easier, safer access to SMC’s products.

### ***Invest in and develop businesses with leading market positions***

SMC intends to further enhance its market position in the Philippines by leveraging its financial resources and experience to continue introducing innovative products and services. Potential investments to develop existing businesses include building additional service and micro-filling stations and food and beverage facilities, constructing new power plants and infrastructure projects and the continued expansion of its various businesses. SMC believes its strong domestic market position and brand recognition provide an effective platform to develop markets for its expanding product portfolio. SMC plans to continue to invest in and develop businesses that it believes have the potential to gain leading positions in their respective markets.

In 2020, the Company achieved important milestones in its ongoing capacity expansion program, which is also aimed at creating jobs and dispersing growth further across the country. The Company’s new facilities include a brewery in Tagaloan, Misamis Oriental, eight feedmills in different locations of Luzon and Visayas, and an additional flour mill in Batangas. These new facilities are integral to the future of SMFB, and will enable the Company to capitalize on important shifts in the food and beverage industry.

### ***Strengthen sustainable business strategies in all its operations***

SMC believes that sustainability is a key factor to its success and has pioneered in and developed a culture of sustainability throughout the organization. It has implemented numerous initiatives in various aspects of its operations, including the returnable glass bottle (“**RGB**”) system for its beer business, the discontinuation of its plastic bottle water business and the use of recyclable products in its Packaging business, among others. Within the organization, the Company promotes the conservation of water and aims to cut utility and domestic use of water by 50.0% by 2025 (the “Water for All” initiative) and actively participates and sponsors environmental conservation activities, such as the “747 Program” with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation.

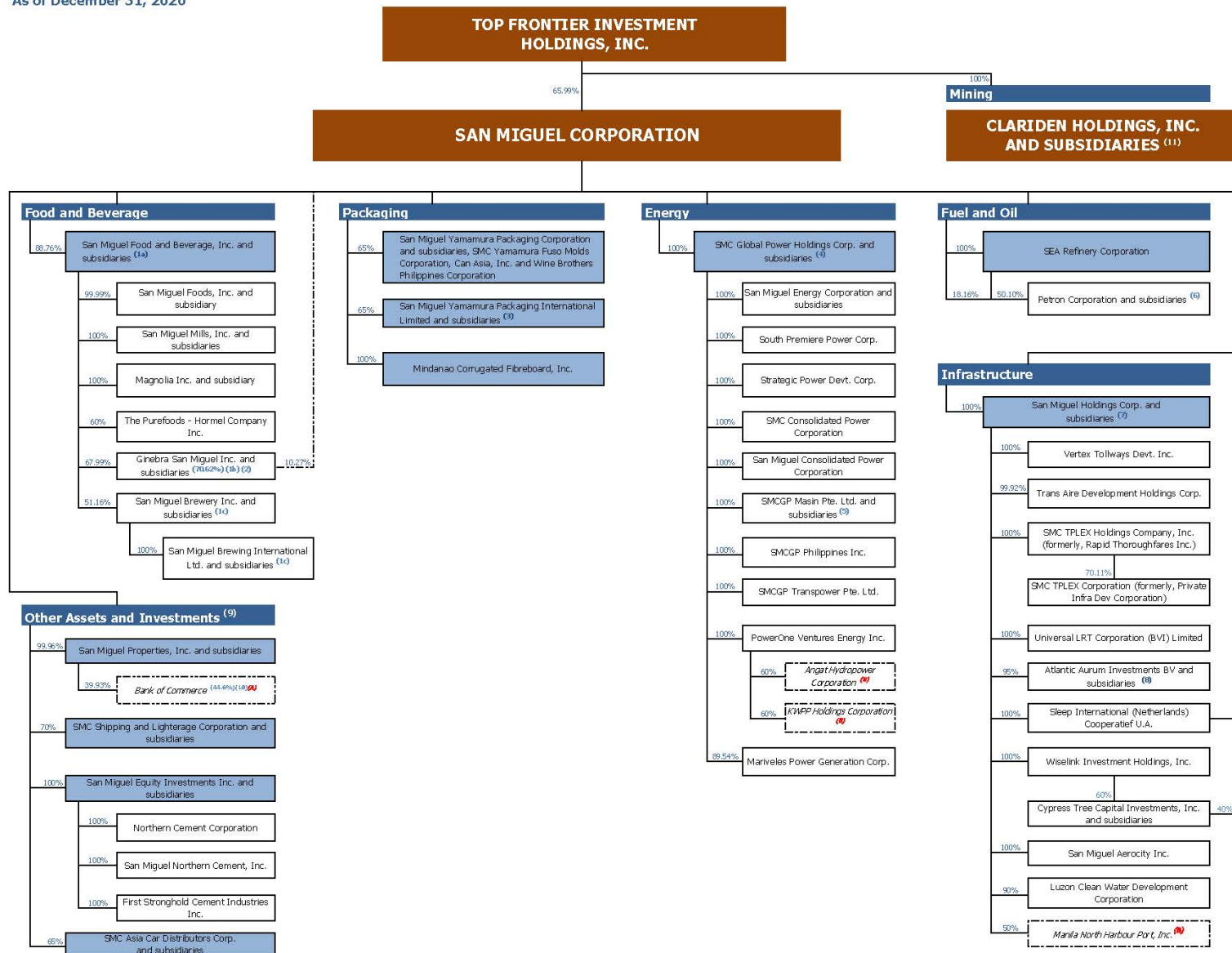
Another major initiative is SMC Global Power's Battery Energy Storage System Project, which will help stabilize power grids and make renewable energy more viable in the future.

The COVID-19 crisis has resulted in severe shortage of disinfecting alcohol. Anticipating the importance of alcohol for personal hygiene and, more importantly, medical use, GSMI became the first Filipino spirits company to temporarily suspend production of liquor products and switch to the production of 70% ethyl alcohol. Since April 2020, all other GSMI facilities nationwide have been producing disinfecting alcohol, bringing total capacity to 100,000 litres per day.

***Adopt world-leading practices and joint development of businesses***

SMC continues to develop strategic partnerships with global industry leaders. SMC's current partners include Kirin for beer, Hormel Netherlands B.V. for processed meats, K-Water for power and NYG, Fuso and Can-Pack for packaging products. These partnerships provide access to the latest technologies and expertise in these technologies, marketing and expansion opportunities and sharing of best practices, thereby enhancing its status as a world-class organization.

**SAN MIGUEL CORPORATION**  
**GROUP STRUCTURE \***  
As of December 31, 2020



\* The group structure includes the Parent Company, Top Frontier Investment Holdings, Inc., its co-subsidiary, Clariden Holdings, Inc. and its subsidiaries and San Miguel Corporation's major subsidiaries, associates and joint ventures.

Notes:  
<sup>(14)</sup> Associate  
<sup>(16)</sup> Joint Venture

## **I. Subsidiaries**

1. San Miguel Food and Beverage Inc. (formerly San Miguel Pure Foods Company Inc.) subsidiaries also include (a) San Miguel Super Coffeemix Co., Inc., PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia) 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, San Miguel Pure Foods (VN) Co., Ltd.; (b) Ginebra San Miguel Inc. subsidiaries including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.; and (c) San Miguel Brewery Inc. subsidiaries including Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary and San Miguel Brewing International Ltd. and subsidiaries including, San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Djakarta Tbk. and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited. San Miguel (Baoding) Brewery Co. Ltd. is in the process of liquidation as at December 31, 2020.
2. San Miguel Food and Beverage Inc. owns 75.78% of issued and outstanding shares of Ginebra San Miguel Inc. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 67.24% of the total issued and outstanding shares of Ginebra San Miguel Inc.
3. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, San Miguel Yamamura Glass (Vietnam) Limited, 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, Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd 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 Australasia Pty Ltd.
4. SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc., SMC Power Generation Corp., Albay Power and Energy Corp., Lumiere Energy Technologies Inc. (formerly Limay Premiere Power Corp.), Universal Power Solutions, Inc. (formerly Limay Power Generation Corporation), SMCGP Philippines Energy Storage Co. Ltd. and Prime Electric Generation Corporation and subsidiary, Alpha Water and Realty Services, Corp.
5. SMCGP Masin Pte. Ltd. subsidiaries include SMCGP Masinloc Partners Company Limited, SMCGP Masinloc Power Company Limited, and Masinloc Power Partners Co. Ltd. SMCGP Masin Pte. Ltd. is in the process of liquidation as at December 31, 2020.
6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd., New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
7. San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Infraventures, Inc. and subsidiary, SMC Skyway Stage 4 Corporation (formerly, Citra Intercity Tollways Inc.) and SMC Mass Rail Transit 7 Inc.

8. Atlantic Aurum Investments B.V. subsidiaries include SMC Tollways Corporation (*formerly*, Atlantic Aurum Investments Philippines Corporation) and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, SMC Skyway Stage 3 Corporation (*formerly*, Citra Central Expressway Corp.), and SMC Skyway Corporation (*formerly*, Citra Metro Manila Tollways Corporation) and subsidiary, Skyway O&M Corp., SMC SLEX Holdings Company Inc. (*formerly*, MTD Manila Expressways Inc.) and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and SMC SLEX Inc. (*formerly*, South Luzon Tollway Corporation).
9. Other Assets and Investments also include San Miguel International Limited and subsidiaries, SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, San Miguel Integrated Logistics Services, Inc. and subsidiary, Anchor Insurance Brokerage Corporation, Davana Heights Development Corporation and subsidiaries and SMC Equivest Corporation.
10. SMC Equivest Corporation also owns 4.69% ownership in Bank of Commerce.

## II. Co-Subsidiary

11. Clariden Holdings, Inc. subsidiaries include V.I.L. Mines, Incorporated, Asia-Alliance Mining Resources Corp., Prima Lumina Gold Mining Corp., Excelon Asia Holding Corporation, New Manila Properties, Inc. and Philnico Holdings Limited and subsidiaries including Pacific Nickel Philippines, Inc., Philnico Industrial Corporation and Philnico Processing Corp. (collectively the Philnico Group).

## EMPLOYEES

As of December 31, 2020, SMC had a total of approximately 45,522 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. The approximate number of employees in each of the businesses is set forth below:

### *Number of Employees*

| <b>Business</b>                  | <b>No.</b>    |
|----------------------------------|---------------|
| Food and Beverage                | 10,763        |
| Packaging                        | 4,294         |
| Fuel and Oil                     | 2,709         |
| Energy                           | 1,665         |
| Infrastructure                   | 4,854         |
| Other Operations and Investments | <u>21,237</u> |
| <b>Total</b>                     | <b>45,522</b> |

As of December 31, 2020, approximately 13% of the regular employees of the SMC Group were parties to various collective bargaining agreements and there are 34 labor unions within the businesses of the SMC Group. The SMC Group maintains good labor relationships and a constant line of communication with its employees. SMC also engages its employees through employee relations programs to maintain a high level of employee satisfaction.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees in the following areas: health care, leaves, miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

Within the ensuing 12 months, SMC may require additional hiring of employees to support its business expansion, the number of which cannot be determined.

## LEGAL PROCEEDINGS

The Company and its subsidiaries are party to legal proceedings from time to time. The outcome of these proceedings cannot be presently determined or predicted with certainty.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to Notes 24 and 43 of the audited financial statements of the Company for the period ended December 31, 2020. Other than those mentioned in the said audited financial statements, there are no material pending legal proceedings to which SMC or any of its subsidiaries is a party or to which any of their material assets are subject.

## DESCRIPTION OF PERMITS AND LICENSES

We believe that the Company has all the applicable and material permits and licenses necessary to operate its business as currently conducted and such permits and licenses are valid, subsisting, or pending renewal.

Particularly, as a holding company, SMC's material permits and licenses necessary for its business as currently conducted, which are valid and subsisting as of the date of this Prospectus, are the following:

| No. | Type of Permit                        | Issuing Agency      | Issue Date<br>(DD/MM/YR) | Expiry Date<br>(DD/MM/YR) |
|-----|---------------------------------------|---------------------|--------------------------|---------------------------|
| 1   | Certificate of Incorporation (PW-277) | SEC                 | 21/8/1913                | N/A <sup>5</sup>          |
| 2   | Certificate of Registration           | BIR                 | 06/09/1990               | N/A                       |
| 3   | Business Permit                       | City of Mandaluyong | 23/01/2021               | 31/12/2021                |

## COMPLIANCE WITH ENVIRONMENTAL LAWS

SMC is in compliance with environmental laws, except where such non-compliance will not have a material adverse effect on the business of SMC. On an annual basis, operating expenses incurred by SMC to comply with environmental laws are not significant or material relative to the total costs and revenues of the Company.

## ENVIRONMENTAL SOCIAL GOVERNANCE AND SUSTAINABILITY INITIATIVES

SMC is working to advance both sustainability and profitability hand-in-hand. The Company believes that in a world beset by climate change and issues of inequality and social cohesion, it is the conscionable thing to do.

The shared challenges that the nation faces require concerted action from corporations such as SMC. A significant part of the Company's sustainability process revolves around tackling society's pressing problems and how SMC's businesses might play a part in addressing and solving them. At the same time, SMC recognizes that sustainability initiatives can improve business performance and enhance shareholder value.

The United Nations Sustainable Development Goals ("UNSDGs") provide an important guide and roadmap to the Company's sustainability journey and its vision of nation building.

SMC has aligned its own sustainability approach to the UNSDGs. In order to refocus the UNSDGs on what the Company believes is at the heart of what matters most to the Company and its stakeholders, UNSDGs have been re-organized into three main principles, which have always been part of the Company's identity: (1) to do business and create growth in a responsible manner, adhering to good governance and setting the standard for best practices; (2) to be a good neighbour to the Company's communities, stakeholders, customers and to the larger nation; and (3) to take steps to act as stewards for future generations.

As one of the Philippines' largest corporations, SMC recognizes that it has the responsibility to make a positive difference in ensuring that future generations have the same, if not better, opportunities than the present generation. In this regard, the Company made two major decisions to reduce its environmental impact in 2017.

<sup>5</sup> By virtue of Section 11 of Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines.



The first was to cut by 50% utility and domestic water use across the entire San Miguel Group by 2025. In the two years since, SMC has managed to save approximately 8.8 billion litres of water, representing a 25.3% reduction in its overall use. The SMC Group believes that it is well ahead of its goal to reduce consumption by 20% in 2020, and is confident that its targets will be achieved.

The second decision was to discontinue its plastic bottled water business, effectively removing some 32 million plastic bottles a year, which would have ended up in landfills or bodies of water, had the Company decided to continue the business.

For SMC then, the key to sustainability and addressing climate change is looking after its own water resources and reducing its carbon footprint. Both are relevant to its business operations and have the potential to drive competitive advantage and innovation for the Company. In addition to these initiatives, SMC actively participates and sponsors environmental conservation activities, such as the “747 Program” with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation.

In terms of supply chains, SMC has been partnering with farmers and backyard livestock operators to transfer technology and help raise rural incomes. The Company’s work in this area continues to evolve, and the Food Division has deployed supplier engagement teams to provide training and further develop skills around building sustainable, and resilient supply chains.

Like many other companies, SMC’s previous efforts in corporate social responsibility have included promoting employee volunteerism, providing donations in kind, and providing grants to, or partnering with charitable organizations. Today, the Company’s social development and corporate giving arm, the San Miguel Foundation, functions as an “ideas incubator” for the kind of social innovation SMC can adopt to tackle problems like income disparity, hunger, and poverty.

SMC invests in its communities not only because it makes good business sense, but also because the Company believes that the private sector needs to do its part in solving the most pressing economic, social, and environmental challenges.

SMC’s “Better World Communities” will be vehicles for community engagement, providing the social scaffolding to enhance the civic life of ordinary Filipinos.

## BUSINESSES OF THE COMPANY

### FOOD AND BEVERAGE BUSINESS

On June 29, 2018, SMC completed the consolidation of SMC's food and beverage businesses into SMFB. The brands under which SMFB produces, markets and sells 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 and *Vino Kulafu* for Chinese wine, *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 Division, (ii) Spirits Division, and (iii) Food Division. The Beer and NAB Division and the Spirits Division comprise the beverage business, which are operated through subsidiaries SMB and GSKI, respectively. The Food Division is managed through a number of other subsidiaries, including San Miguel Foods, Magnolia, Inc., and Purefoods-Hormel.

For each of the years ended December 31, 2018, 2019 and 2020, the food and beverage businesses had sales of ₱286,378 million, ₱310,785 million and ₱279,290 million; gross profit of ₱92,142 million, ₱98,755 million and ₱79,051 million; and net income of ₱30,533 million, ₱32,279 million and ₱22,401 million, respectively.

The following table sets forth the contribution of the three divisions to total sales for the periods indicated:

| For the years ended December 31, |                                       |                   |                        |                   |                        |                   |
|----------------------------------|---------------------------------------|-------------------|------------------------|-------------------|------------------------|-------------------|
|                                  | 2018                                  |                   | 2019                   |                   | 2020                   |                   |
|                                  | ₱                                     | %                 | ₱                      | %                 | ₱                      | %                 |
| <b>Sales <sup>(1)</sup></b>      |                                       |                   |                        |                   |                        |                   |
| Beverage Business                | (in millions, except for percentages) |                   |                        |                   |                        |                   |
| Beer and NAB Division.....       | ₱129,245                              | 45.0              | ₱142,267               | 46.0              | ₱107,923               | 39.0              |
| Spirits Division..               | 24,835                                | 9.0               | 29,063                 | 9.0               | 36,198                 | 13.0              |
| Food Division ..                 | <u>132,298</u>                        | <u>46.0</u>       | <u>139,455</u>         | <u>45.0</u>       | <u>135,169</u>         | <u>48.0</u>       |
| <b>Total .....</b>               | <u><b>₱286,378</b></u>                | <u><b>100</b></u> | <u><b>₱310,785</b></u> | <u><b>100</b></u> | <u><b>₱279,290</b></u> | <u><b>100</b></u> |

Notes:

(1) Represents the external sales of each division and excludes inter-division sales.

Selected operating data for the SMFB is provided below for the periods indicated:

| For the years ended<br>December 31,               |                                   |           |           |
|---------------------------------------------------|-----------------------------------|-----------|-----------|
|                                                   | 2018                              | 2019      | 2020      |
|                                                   | (in millions, except percentages) |           |           |
| Sales.....                                        | ₱ 286,378                         | ₱ 310,785 | ₱ 279,290 |
| Gross profit.....                                 | 92,142                            | 98,755    | 79,051    |
| Gross profit margin <sup>(1)</sup> .....          | 32.2%                             | 31.8%     | 28.3%     |
| EBITDA <sup>(2)</sup> .....                       | 54,725                            | 58,667    | 46,776    |
| EBITDA margin <sup>(3)</sup> .....                | 19.1%                             | 18.9%     | 16.7%     |
| Net income before tax .....                       | 43,361                            | 46,107    | 31,788    |
| Net income before tax margin <sup>(4)</sup> ..... | 15.1%                             | 14.8%     | 11.4%     |

## **Strengths and Strategies**

### **Strengths**

#### ***One of the largest consumer companies in the Philippines with a rich heritage of 130 years***

SMFB is one of the largest consumer companies by revenue and net income among the publicly listed peers in the Philippines with consolidated sales of ₱279,290 million and consolidated net income of ₱22,401 million for the year ended December 31, 2020. The Beer Division was founded as *La Fabrica de Cerveza de San Miguel* in 1890, a single brewery with a single product and over the years, the *San Miguel* brand has transformed into a household name that is interwoven with the economic and cultural fabric of the Philippines, supporting Philippine development and economic progress. SMFB's heritage has allowed it to develop a deep and unparalleled understanding of its consumers, an extensive and efficient nationwide distribution network and deeply entrenched brands that provide it with significant competitive advantage. SMFB believes that it has continuously demonstrated its ability to adapt throughout its history by leveraging extensive operational know-how, market experience and consumer insight to remain at the forefront of new trends and innovations, thereby allowing it to successfully enter new categories and capture incremental market share over the years.

#### ***Powerful portfolio of iconic and trusted brands that resonate deeply with SMFB's local consumers***

SMFB's key brands have a rich history and long track record, catering to consumers for over a century. For example, *Ginebra San Miguel* was launched in 1834, *San Miguel* beer was established in 1890, *Magnolia* in 1925, B-Meg in 1953 and *Purefoods* in 1956. SMFB's strength is demonstrated by leading brand rankings in several segments and product categories. SMFB produces the top beer brands in the country with a market share by volume of 95.1% in 2019, according to GlobalData. Despite the entry of local beer competition in 1981 and the introduction of locally-brewed versions of foreign brands, craft beers and imported beers, SMFB believes that its brands are top-of-mind and continue to maintain their leading positions across market segments. *Super Dry* is the market leader in the premium segment. *Red Horse*, *San Miguel Pale Pilsen* and *San Mig Light* are the leading brands in the mainstream segment, and *Gold Eagle* leads in the economy segment, according to GlobalData as of 2019. According to The Nielsen Company (Copyright © 2020, The Nielsen Company), the Spirits Division's core spirits brands, *Ginebra San Miguel* and *Vino Kulafu* are also market leaders in the gin and Chinese wine categories at 92% and 71% volume share, respectively, as of December 31, 2020. Similarly, *Purefoods* (branded processed meats), *Magnolia* (fresh chicken), *Monterey* (fresh meats), *Star* (butter and spreadable fats), and *B-Meg* (feeds) are market leaders in value terms for their respective categories.

The Beer Division's beer brands have significant international brand equity with a global presence in over 70 countries. *San Mig Light* is one of the major players in the premium beer segment in Thailand. *Anker Bir*, its local brand in Indonesia, is the second biggest brand in the market. In Hong Kong, where SMFB's Beer Division is the only major beer player having a local brewery, the brand has been embraced by Hong Kong locals and is a favourite among foreign expats and tourists. SMFB also has a strong presence in major tourist spots all over Asia. The food products of the Food Division also have a growing international presence in North America, South East Asia, Australia, and the Middle East.

SMFB believes that its well-recognized brands locally and abroad, ability to customize products to cater to specific needs, and the sale of a number of products through clean and convenient branded distribution outlets enable SMFB to command favourable pricing. The diversity of its product offering reduces dependence on any single product segment and makes SMFB more resilient to changes in competitive dynamics or raw material price fluctuations that may impact one product segment more than another.

#### ***Leading market positions in the most attractive consumer categories***

The businesses of SMFB hold market-leading positions across the food and beverage categories with large addressable markets and attractive growth prospects. Through the SMFB Consolidation, SMFB is now a unique platform offering an extensive complementary product portfolio across beer and NAB, spirits and food with 32 brands in six categories and serving the full spectrum of the growing domestic population. In 2019, the Beer business had a market share by volume of 95.1% and has consistently held at least 90% market share by volume since 2000, according to GlobalData. As of December 31, 2020, the Spirits business, had leading market share in the gin category by volume of 92%, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of December 31, 2020, the Food Division, is a market leader in several categories: 63.2% for hotdogs, 25.8% for corned meats, 22.8% for cheese, 41.6% for refrigerated butter, 94.5% for refrigerated

margarine, and 97.9% for non-refrigerated margarine, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of September 30, 2020, its luncheon meats segment had 13.4% market share, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). Likewise, based on figures at the end of 2019, the Food Division had market share of 22.8% for feeds.

SMFB is intimately involved in consumers' lives at every meal and occasion, guided by the company slogan of “*Celebrating Life*”, SMFB believes that its products are part of the daily lives of its consumers, providing sustenance and enjoyment to families through trusted food brands and celebrating friendships and camaraderie with its world-class portfolio of beer and NAB and spirit products. The product portfolio of SMFB is suitable for any occasion, whether it be for everyday consumption or the most significant life events, and continuously evolves to cater to consumer tastes and preferences. Based on a survey conducted by KantarWorld panel, during June 2015 to June 2018, the products of SMFB were present in 92% of Filipino homes.

SMB is also the 13<sup>th</sup> largest beer producer globally by volume and one of the top four Asian beer players in 2017 by revenue. The significant competitive advantage of SMFB is demonstrated by consumers' strong preferences for San Miguel products over competition.

Market leadership in spirits is demonstrated by GSMI's strong market share in the gin category and a growing demand for its Chinese wine product, *Vino Kulafu*. GSMI produces *Ginebra San Miguel*, which is the world's number one selling gin by volume according to GlobalData as of 2017. SMFB believes that its core spirits brands in gin and Chinese wine are gaining popularity domestically and earning market share from other spirits brands in the Philippines.

SMF holds market-leading positions in various food categories, contributing over 80% of the total Food Division's revenue. Categories include branded and processed meat, butter and spreadable fats, cheese, ice cream, animal nutrition and health, and protein.

#### ***Strategically located production facilities providing strong competitive advantages***

SMFB believes that its production facilities are strategically located throughout the Philippines, providing wide coverage of the population while optimizing distribution costs.

With seven beer production facilities strategically located across the Philippines and in close proximity to consumer markets, SMFB is able to serve all regions and transport beer products to market within five to seven days of production, thus ensuring product availability and freshness. Spirits, on the other hand, are produced from fine alcohol obtained from a centralized distillery in Negros Occidental, which is the Philippines' largest molasses producing region, and bottled at five domestic facilities located across the country. SMFB also operates a nationwide manufacturing network for food products with 31 feedmills, 56 processing plants, and around 1,300 breeding and growing farms located across Luzon, Visayas and Mindanao. As a result of such food production facilities' proximity to markets and efficient cold chain, SMFB is able to ensure optimal shelf life and reduce perishability of fresh products. SMFB believes that its facilities are among the most efficient in the country given the use of modern technology. Such production facilities are equipped with automated machines which can manufacture and package products in a variety of formats, while maintaining low production costs. Most of the poultry farms are equipped with tunnel ventilation to produce healthier, higher quality and more cost-efficient meats.

Additionally, the facilities are compliant with the strict international requirements of International Organization for Standardization (“ISO”), Good Manufacturing Practices (“GMP”) and Hazard Analysis of Critical Control Points (“HACCP”) certifications. The Food Division strictly complies with relevant regulations which mandate recall of food products which may pose a major food safety issue. These stringent safety and quality standards are reflected in the historical track record of SMFB, where it has had no major food and beverage safety incident in the last five years.

#### ***Extensive distribution network across the Philippines covering diverse channels***

The Philippine archipelago consists of 7,641 islands divided into three main regions of Luzon (including Greater Manila), Visayas, and Mindanao that have distinct macro and industry dynamics. This creates a unique market and competitive landscape that allows us to significantly benefit from the scale of its extensive nationwide distribution network.

As the leading player in the Philippines, SMFB products occupy prime shelf spaces in groceries, convenience stores, and mom and pop stores across the country.

SMFB believes that it has the largest and most extensive distribution network in the Philippines. The Beer and NAB Division operates over 50 sales offices, having partnerships with approximately 500 dealers with its products present in over 400,000 outlets. The Spirits Division operates 15 sales offices situated strategically across the Philippines and coordinates with a network of 89 dealer sites covering approximately 150,000 outlets. The food products of the Food Division are offered through approximately 130,000 points of sale, having partnerships with over 600 dealers/distributors.

To service its distribution network, SMFB has established dedicated teams and customized products to target different distribution channels. SMFB believes that its multi-channel distribution platform has allowed it to maximize customer reach and has been one of the key factors to its success in building and developing market-leading positions. SMFB supplies products to mom-and-pop stores, wet markets and other traditional retail outlets; modern trade outlets, including supermarkets, hypermarkets, convenience stores and grocery stores; on-premise channels such as hotels, restaurants, cafes and bars; exclusive retail outlets; and franchised stores. In particular, SMFB has a key accounts group within each division, which focuses on maximizing distribution across all channels.

SMFB has been able to reach a wide number of consumers through its extensive distribution network. For the Beer and NAB Division, the strong dealership network ensures the availability of products throughout the Philippines. Dealers are provided systems and trainings related to dealer operations. The RGB system allows distributors to interact with customers on a regular basis, upon collection and return of the RGBs, further fortifying the consumer relationship. A strong aspect of SMFB's distribution network is the perennial presence of its products in mom-and-pop stores. These mom-and-pop stores are difficult for competitors to penetrate as they tend to have limited capital and shelf space, and only carry brands that are fast-moving. SMFB distribution networks also organize dealers by assigned geographic areas ensuring the widest coverage of its products. For the Food Division specifically, efficiency is enhanced by having fewer but larger exclusive dealers for the Prepared and Packaged Food segment.

SMFB has also pioneered the development of innovative formats to sell its food products, which has the benefit of growing the market by driving consumer preferences. The Food Division introduced *Monterey Meatshops*, *Magnolia Chicken Stations*, *Treats*, and *Kambal Pandesal* outlets as well as other distribution outlets to distribute the Food Division's products and established *Great Food Solutions* to manage sales to key foodservice customers, such as hotels, restaurants, bakeshops, fast-food, and pizza chains.

### ***Powerful consumer insights drive growth, innovation, and new product development***

SMFB's ability to successfully introduce new products by leveraging on its extensive knowledge of consumer preferences, demographic, and market trends, as well as broad distribution channels, has allowed it to attain market leadership positions. Through its comprehensive reach and investment in market research and collaboration and feedback from strong relationships with customers, dealers and distributors, SMFB is able to gain meaningful consumer insights, thereby allowing it to anticipate changes in consumer demand and preferences.

SMFB constantly engages in extensive research for updates on market trends and changes in consumer tastes and identifies market gaps towards developing an optimum yet manageable new product pipeline. This promotes effective resource management and optimizes new product development ("NPD").

SMFB continuously creates market opportunities and pioneer new product variants to excite the market and address its ever-changing needs and preferences.

### ***Cost efficiency initiatives and unique elements of business model driving strong profitability***

SMFB engages in a variety of initiatives to minimize raw material and other input costs. For example, the Beer and NAB Division employs the RGB system which, with over 90% retrieval in the past five years, provides a significant competitive advantage by allowing us to manage costs. The Spirits Division manages cost by purchasing raw materials such as sugarcane molasses and alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open market. SMFB has engaged in successful initiatives such as aggressively promoting bottles recycling for the Spirits Division, with approximately 53% of

total glass bottles used were retrieved by and purchased from bottle suppliers for the year ended December 31, 2020. The climate-controlled facilities used by the Food Division have improved yields and created conducive environment for healthy animal growth. The Food Division continuously explores alternative raw materials from grains and by-products used in the Animal Nutrition and Health segment as well as alternative protein sources and flavours for the Prepared and Packaged Food segment.

Furthermore, SMFB's efficient and modern production facilities drive efficiency. Its best-in-class technologies and processes applied to facilities across the Beer and NAB, Spirits and Food Divisions also help reduce wastage and maximize production yields. Most production facilities are fully automated, thereby ensuring consistent quality of products with minimal spoilage. The brewing production processes are regularly reviewed to optimize output and generate cost savings. Additionally, each of the Beer and NAB, Spirits and Food Divisions have their own research and development ("**R&D**") teams which regularly monitor and conduct tests to ensure that production processes are up-to-date with the relevant industry standards and that high-quality products will be sold at the least cost.

SMFB believes that its vertically integrated facilities enable it to better manage raw material costs and extract margins along the entire food chain while ensuring superior food safety, traceability, and supply chain reliability and integrity. The Food Division's unique "farm-to-plate" business model allows it to derive synergies and extract margins along the entire food production and distribution process as it drives economies of scale from combined raw material sourcing, integrated production functions and shared sales, distribution, marketing and support functions. It also enhances operational flexibility to quickly adapt and augment products to respond to market demand. Finally, cost efficiencies are also realized in unique aspects of the distribution chain. The Golden Bay Grain Terminal, which SMFB owns and which serves both feeds and flour operations, has facilitated the shipment of products through larger vessels thus minimizing intermediate handling and leakage, and resulting in lower freight and handling costs.

## **Strategies**

The principal long-term goal of SMFB is to further strengthen and solidify its position as the leading food and beverage company in the Philippines, and consistently expand its business to meet rapidly growing consumer demand. SMFB aims to achieve this goal by implementing the following strategies:

### ***Continued execution of regionally tailored strategies, leveraging on its unique understanding of consumers***

SMFB continues to leverage its extensive knowledge of consumers in executing regionally tailored strategies. The Philippine archipelago has three main regions of Luzon (including Greater Manila), Visayas and Mindanao, each with distinct macro and industry dynamics. SMFB believes that its market-leading positions enable it to leverage differentiated consumer insights specific to each region and execute tailored strategies, thus enhancing nationwide presence. SMFB is well-positioned to benefit from the growing demand for food and beverage products as driven by expanding urbanization, favourable demographic patterns, and rapidly changing consumer tastes and preferences.

SMFB will continue to respond and address emerging market trends and changes in consumer preferences in key cities and fast-growing areas to answer the market's demand for authentic experiences, "*premiumization*" and indulgence, convenience and value, among others.

### ***Maintain market leadership positions in core categories while growing the total addressable market through marketing initiatives and new product development***

SMFB plans to invest in tailored brand building and marketing campaigns as well as pursue targeted NPD strategies in each product category. Through this, SMFB expects to further reinforce its leadership positions and grow the total addressable market.

SMFB continues to pursue innovative consumer promotions and relevant, consistent and fresh campaigns, on-ground activations as well as occasion-creation programs to strengthen demand for each of its brands and to guard against competition.

SMFB utilizes multiple marketing media such as print, television, digital, and radio advertisements, billboards, consumer, and trade activations such as promotions targeting specific consumer segments or trade channels, sponsorship in major "*fiestas*" or local festivals and food fairs, and basketball team sponsorships. For example,

the Beer and NAB Division holds nationwide and local trademark, signature events such as *San Miguel Oktoberfest*, *Red Horse Pambansang Muziklaban*, *San Mig Light Party All Night*, *Sarap Mag Babad (Taste of Summer)* summer program and the National Beer Drinking contest, which SMFB believes have all been successful in reinforcing brand awareness in key customer segments.

SMFB actively taps digital platforms to promote awareness, trial and consumption of its brands and engage customers through various social media platforms including Facebook, Instagram, YouTube, Twitter and Viber. Specific campaigns and relevant activations of brands are promoted online through online contests and mom and pop store promotions. SMFB likewise lead conversations on social progressiveness through *San Mig Light* digital campaigns. SMFB also closely monitors its digital programs to determine their effectiveness through evaluating various metrics.

SMFB places strong focus on new product rollouts that cater to changing consumer preferences and specific industry trends. Utilizing extensive proprietary consumer data, SMFB identifies market opportunities in existing and adjacent categories and continuously evaluates the need to introduce new products and packaging innovations to capitalize on emerging market trends such as convenience, growth of new consumer segments, and health mindfulness. For example, SMFB expects to increase the contribution of the increasingly popular “ready-to-eat” and “heat-and-serve” products to total food sales.

***Continue to broaden its distribution footprint and enhance penetration across channels throughout the Philippines***

SMFB intends to sustain its strong growth momentum by broadening outlet coverage through promotions and increased market penetration across all channels. SMFB’s sales force, together with dealers and distributors, plan to put greater focus on serving diverse channels as the number of outlets grows across the Philippines.

SMFB plans to improve sales and distribution capabilities and increase nationwide penetration through product offerings tailored for each channel and implementing innovative growth strategies. SMFB aims to ensure and increase its presence in growing modern trade channels, such as supermarkets and convenience stores in urban areas, by expanding its key accounts group, while simultaneously focusing on increasing visibility in selected on-premise outlets.

SMFB continues to develop or tap emerging channels, increase market penetration, and capture growth through digital platforms across Beer and NAB, Spirits, and Food Divisions. To support distribution programs, SMFB will continue to further improve its logistics capabilities and infrastructure through warehouse expansions, additional sales offices, and truck and logistics centre enhancement initiatives.

***Capacity expansions to support growing consumer demand***

Capacity expansion in key regional markets is a critical element of the growth strategy of SMFB to support increasing market demand nationwide, particularly in the provinces. In Luzon, SMFB is expanding production capacities in the beer and food businesses to keep pace with the growing market, as well as launching new product categories to address consumers’ growing demand and preference for convenience. For example, SMB converted its beer production facility located in Sta. Rosa, Laguna to a full-fledged brewery facility to serve growing requirements in South Luzon. Commercial operations at the Sta. Rosa Brewery started in December 2020.

The Food Division has built five new feedmills, four of which are already operational and are located in Bataan, Bulacan, Davao, and Misamis Oriental. The fifth feedmill in Cebu is under commissioning as of the date of this Prospectus. The Food Division has, likewise, expanded its poultry breeder farm in Bataan and is also constructing new poultry processing plants in Quezon and Davao.

In Visayas and Mindanao, SMFB plans to boost production capabilities as economic development in these regions accelerates demand for food and beverage products. A new beer production facility in Tagoloan, Misamis Oriental was completed in 2019 and started its commercial operations in December 2020. The facility is expected to serve Northern Mindanao and adjacent areas. There are also plans to construct a new grain terminal in Northern Mindanao to improve the shipping access of both raw materials for food manufacturing facilities and finished goods such as flour. SMFB is likewise in various stages of constructing a new poultry and fresh meat processing plant and three new feedmills in the Visayas-Mindanao region.

SMFB is expanding capacity through company-owned manufacturing facilities across all its businesses to better meet the growing demand and to maximize efficiencies through manufacturing technologies and innovation.

As of December 31, 2020, SMFB believes that the Spirits Division has sufficient capacity to meet growing demand.

#### ***Continued enhancement of profitability through cost-saving initiatives***

Through efficiency and process innovations, productivity enhancements, cost management measures and continuous product portfolio reviews, SMFB is able to rationalize unprofitable products and enhance price stability of its revenue streams. The Beer and NAB Division will continue to broaden its base of suppliers and materials through second supplier program, multi-continent sourcing, evaluation of alternative materials, and undertaking process optimization initiatives. In the Spirits Division, growth in profit margins can come from better operational efficiencies, improvement in second-hand bottle retrieval, higher alcohol yield and strategic sourcing of alternative raw material to complement or replace sugarcane molasses, which is the main input in gin production. The Food Division will continue to conduct initiatives that allow the use of alternative, lower-cost raw materials, such as the use of cassava as a substitute for corn, a key ingredient in the production of animal feeds. The Food Division also utilizes climate-controlled housing system for hogs and broilers which improves cost efficiency by increasing production cycles per farm per year, improving feeds consumed to weight ratio and deriving better harvest recovery. These, together with selective breeding innovations have resulted in larger chicken size, thereby further enhancing cost efficiency. Part of the cost improvement program is reducing freight and handling costs by strengthening logistics capabilities and infrastructure and optimizing the use of grains terminals, silos and warehouses. Through continued cost-efficiency initiatives, SMFB believes that it will be able to sustain high profitability margins across divisions.

#### ***Leverage existing platform and brand equity in international markets for further growth***

SMFB's products are exported to over 70 countries and territories across the globe. SMFB operates eight international production facilities across China, Hong Kong, Indonesia, Thailand, and Vietnam. SMFB plans to leverage this international network to export products across divisions to access fast-growing markets in Asia and the rest of the world. As one of the largest integrated food and beverage platforms in the Philippines, SMFB believes that it is well-positioned to expand internationally and build global brand equity to achieve incremental growth, while carefully planning and implementing such international expansion strategies.

The Beer and NAB Division's strategy is to further strengthen performance in countries where it has operations supported by key growth areas, such as Vietnam and Thailand, as well as selected export markets. In SMFB's international markets, the company plans to capitalize on potential growth in new cities and maximize opportunities in the modern trade and wholesale channels to support volume growth. Meanwhile, new products or SKUs will be introduced in selected markets to further strengthen its product portfolio and create excitement in these markets. The company will also sustain expansion efforts in Asia, the Middle East, the U.S., Australia and new markets in Europe and Africa to further build its global footprint.

#### ***Exploit synergies across its combined and diversified consumer platform***

Through the consolidation of the Beer and NAB, Spirits and Food Divisions, SMFB intends to establish a powerful consumer platform with the potential to capture both cost and revenue synergies.

##### ***Cost synergies***

SMFB believes that the consolidation of its food and beverage businesses will result in greater economies of scale and scope while allowing for increased opportunities to share resources and take advantage of established relationships across the Beer and NAB, Spirits and Food Divisions. Sourcing synergies from centralized planning and procurement across business units will reduce purchasing costs. In addition, SMFB plans to capitalize on extensive and long-standing supplier relationships under each of the divisions to strengthen cooperation and coordination among the divisions. By utilizing strategically located production and distribution centres across the entire footprint, SMFB will have the scope to reduce overall costs and better optimize logistics across the food and beverage businesses. SMFB can likewise explore the integration and coordination of market research, management and marketing initiatives, and other support systems to reduce corporate overhead costs. As an integrated platform, SMFB will constantly strive to improve management and production efficiency, while implementing international best practices.



### *Revenue synergies*

With the combined food and beverage business having access to approximately 700,000 outlets as of December 31, 2020, covering all channels throughout the Philippines, there is increased scope for further coordination across the various product lines. Leveraging its extensive distribution network, SMFB expects that new products will quickly reach the market while improving trade efficiencies and customer loyalty through enhanced trade and promotion activities for the existing product portfolio. The various divisions may likewise benefit from enhanced market data sharing where SMFB can consolidate market and consumer insights for each of the businesses to identify consumer trends and preferences. This would ideally minimize execution risk in the introduction and penetration of regional specific products and initiatives. Utilizing market insight data, SMFB can also identify cross-selling opportunities among the Beer and NAB, Spirits, and Food Divisions.

### **Beverage Business**

The beverage business consists of brewing, distilling, selling, marketing and distributing beer, NAB and spirits. The beverage business is conducted through SMFB's majority-owned subsidiaries, SMB and its subsidiaries, which comprise the Beer and NAB Division, and GSMI and its subsidiaries, which comprise the Spirits Division. As of December 31, 2020, SMFB held 51.16% and 64.99% of the outstanding common capital stock of SMB and GSMI, respectively. On December 1, 2020, GSMI's Board of Directors approved the redemption of 32,786,885 preferred shares held by SMC in GSMI, with the redemption proceeds payable on January 4, 2021. After the said redemption, SMC no longer held direct equity interest in GSMI and its indirect equity interest in GSMI through SMFB increased from 67.24% to 75.78%.

SMB is the largest producer of beer in the Philippines and is the largest contributor to the beverage business, accounting for 39.0% of total beverage business sales for the year ended December 31, 2020. GSMI is a leading spirits producer in the Philippines and largest gin producer globally by volume for the year 2018, according to GlobalData, accounting for 13.0% of total beverage business sales for the year ended December 31, 2020.

The beverage business had combined sales of ₱154,080 million, ₱171,330 million, and ₱144,121 million for the years ended December 31, 2018, 2019 and 2020, respectively.

### **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, with a total domestic market share of approximately 95.1% in 2019, according to GlobalData. According to the same source, beer brands include the top four beer brands in the Philippines, namely *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light* and *Gold Eagle*. The Beer and NAB Division also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice, and carbonates. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 130 years and was first produced by *La Fabrica de Cerveza de San Miguel*, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC.

In 2009, Kirin acquired a 48.39% shareholding in SMB, of which 43.249% was acquired from SMC and the remaining 5.141% by virtue of a mandatory tender offer and purchase from public shareholders. SMC retained majority ownership of SMB with shareholding of 51.16%. In connection with Kirin's investment in SMB, Kirin and SMC entered into a shareholders' agreement providing for, among others, corporate governance and approvals, cooperation in the conduct of the business, restrictions on the transfer of SMB shares and other customary arrangements. SMFB adhered to the shareholders' agreement with Kirin and agreed to be bound by the same terms and conditions as a party to the said shareholders' agreement. As of the date of this Prospectus, SMFB owns 51.16% of SMB, while the remaining 48.54% is held by Kirin.

In 2015, SMB acquired the NAB business from GSMI, which acquisition includes property, plant and equipment, finished goods inventories, and other inventories comprising containers on hand, packaging materials, goods-in-process and raw materials used in the NAB business. The acquisition is in line with the multi-beverage strategy of SMB that seeks to expand its product portfolio in the non-alcoholic beverage market, among others. This transfer will also benefit from SMB's RGB system, strong distribution network, and competitive positioning.

The Beer and NAB Division operates seven production facilities that are strategically located across the Philippines with an aggregate production capacity of 23.4 million HL/year. International operations are conducted through SMB's wholly-owned subsidiary, San Miguel Brewing International Limited ("SMBIL"), which in turn has production facilities located in five sites outside the Philippines (one production facility each in China, Hong Kong, Indonesia, Thailand and Vietnam) with an aggregate production capacity of 4.6 million HL/year. In total, the Beer and NAB Division's beer production capacity is 28 million HL/year. In addition to producing the core San Miguel beer brands marketed internationally, the international operations also produce *Anker* and *Dragon*, which are its local brands in Indonesia and China, respectively. Beer products are exported to more than 70 countries and territories across the globe. International operations accounted for 9.4% of the total sales of the Beer and NAB Division for the year ended December 31, 2020.

For the years ended December 31, 2018, 2019 and 2020, sales of the Beer and NAB Division were ₱129,245 million, ₱142,267 million, and ₱107,923 million, respectively, and net income was ₱23,843 million, ₱27,292 million, and ₱17,457 million, respectively.

#### *Production Facilities and Raw Materials*

##### Production Facilities — Domestic Operations

The Beer and NAB Division maintains a network of production facilities rather than one central consolidated brewing and production facility. Currently, the Beer and NAB Division owns and operates seven production facilities in the Philippines located in each of the three main island groups of Luzon, Visayas and Mindanao, namely: (1) the Polo facility located in the National Capital Region and established in 1947; (2) the Sta. Rosa facility located in Laguna Province and established in 2011, initially as a bottling facility, then converted into a full-fledged brewery with its first commercial run in December 2020; (3) the San Fernando facility located in Pampanga Province and established in 1981; (4) the Mandaue facility located in Cebu Province and established in 1968; (5) the Bacolod facility located in Negros Province and established in 1990; (6) the Davao facility located in Davao Province and established in 1995; and (7) the Tagoloan facility in Misamis Oriental, which also had its first commercial run in December 2020. The domestic production facilities have a total production capacity of 23.4 million HL/year as of December 31, 2020. While production at each production facility is typically targeted to serve the surrounding geographical area, the Beer and NAB Division can shift the manufacture of its products from one production facility to another if operational issues or demand changes require it.

The Beer and NAB Division employs brewing equipment and technology sourced from leading manufacturers in Germany, the U.S., Japan and Italy. These include modern beer fermentation and maturation tanks, filtering systems, pasteurizers with energy saving systems and camera-type electronic bottle inspectors, among others. Each of the production facilities is equipped with automated machines and equipment capable of manufacturing products in a variety of packages to meet market preferences, including bottles, cans and kegs.

All the production facilities are compliant with certain ISO requirements such as the ISO 9001:2015 and ISO 14001:2015, as assessed by its pool of technical assessors and are also certified by the Food Development Centre, an office under the Philippine National Food Authority, as compliant to food safety requirements of current GMP-HACCP.

##### Production Facilities — International Operations

The Beer and NAB Division owns and operates five production facilities outside of the Philippines – one each in China, Hong Kong, Indonesia, Thailand and Vietnam, with an aggregate production capacity of 4.6 million HL/year, as of December 31, 2020.

The facility in China is located in Longjiang Town, Shunde District in Guangdong Province and started operations in 1996. While SMBIL's first brewery in Hong Kong was established in 1948, the company transferred to its current facility located in Yuen Long, Hong Kong in 1996. The Indonesian facility is located in Bekasi Timur and was established in 1993. The Vietnamese facility is located in Khanh Hoa Province and was established in 1995. The Thailand facility is located in Pathum Thani and was acquired in 2004.

##### Raw Materials

The main raw materials for brewing beer include malted barley, hops, water and yeast. Adjuncts can also be

used in conjunction with malted barley. For non-alcoholic beverages, the main ingredients include water, sugar, sweeteners, fruit juice concentrates, tea extract, flavours, colorants and vitamins. All of these commodities have experienced, and may experience, price fluctuations. The Beer and NAB Division sources its key raw materials for its beer using a set of standardized procurement procedures. Beer production requires malted barley and hops, which are sourced generally from North America, Australia, Europe and China; and adjuncts such as corn and sugar, which are sourced domestically, and imported tapioca. For non-alcoholic beverages, SMB primarily sources its ingredients from Singapore, China and Europe.

Terms with key raw material suppliers provide for a supply period of approximately one year to five (1-5) years with a pre-determined fixed and formula-based price for the duration of the supply relationship. In addition, depending on considerations, such as price trends and the quality of raw materials, spot purchases are made in the open market. To ensure the quality of its products, the Beer and NAB Division closely monitors the quality of its raw materials.

Packaging materials are sourced primarily from the Packaging Group. Packaging costs are a significant factor in the manufacture of beer and the Beer and NAB Division sells most of its beer products in RGBs of varying sizes and shapes, as well as aluminum cans and kegs. For the year ended December 31, 2020, around 90% of the RGBs used for beer were retrieved, which the Beer and NAB Division believes is the most important and popular packaging for beer in the Philippines. SMB's efficient RGB system decreases its exposure to rising packaging costs driven by increases in fuel and therefore helps in management of cost. The durable nature of the RGBs and plastic crates results in an average usage of approximately 40 to 60 cycles over a span of approximately five to ten (5 to 10) years. Retail outlets selling SMB's products collect deposits on these bottles when customers buy the beer. For bottles returned, the corresponding deposit is refunded to the customer. New glass bottles and plastic crates are also purchased to support increasing sales and to replace broken and scuffed bottles.

Beer in aluminum cans are less popular mainly because they are more expensive, although the volume of this package has been increasing in recent years with greater availability and the expansion of modern trade. Kegs for draft beer, which come in 15, 30, and 50 litre sizes are very limited.

Deep wells provide the water supply needed for production in domestic production facilities, except for water used at the Polo Brewery, which is supplied by water utility service providers in the Philippines. For international operations, water is sourced through deep wells, water utility service providers or government-owned water facilities.

### *Sales and Distribution*

#### Domestic Market

The Beer and NAB Division markets, sells and distributes its products principally in the Philippines and maintains an extensive distribution system, which encompasses the seven strategically located production facilities across the country, a broad network of sales offices and warehouses supported by dealerships and third-party service providers.

The strategic locations of the production facilities reduce overall risks by having alternative product sources to avert possible shortages and meet surges in demand in any part of the country, and help ensure that the products are freshly delivered to customers at an optimal cost. Products are delivered from any one of the six production facilities by contract haulers and, in certain circumstances, by a fleet of boats, to retailers and consumers generally within five to seven days from production, ensuring quality and sufficient stocks wherever and whenever San Miguel beer products are needed. SMB's products are distributed and sold at approximately 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, sari-sari stores (mom and pop stores), and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels through over 50 sales offices and approximately 500 dealers throughout the Philippines.

Given the COVID-19 pandemic and restrictions which brought about challenges in distribution and selling especially of alcobev products, the Beer and NAB Division implemented the necessary pivots including modified selling strategies and more direct-to-consumer options for volume recovery. These cover physical stores focusing more on off-premise channels, telesales and online selling supported by stronger own delivery operations (8632-beer and SMBDelivers) and strategic online partnerships to ensure availability in relevant channels.

The division also intensified creative consumption generating programs and promotion of at-home beer consumption through digital platforms and various engagements for consumers.

To adapt to the new normal, the Division also introduced San Mig Free, the first zero-alcohol beer in the local market in December 2020 which allows drinkers to extend the quality time and fun drinking experience without the alcohol.

For distribution efficiency, the Beer and NAB Division works closely with dealers and provides them with assistance, such as systems and trainings related to dealer operations. The Beer and NAB Division enters into distribution agreements with its dealers that specify the territory in which each dealer is permitted to sell products, the brands that the dealer is permitted to sell, the performance standards as applicable, procedures to be followed and circumstances upon which distribution rights may be terminated. Distribution rights, performance standards and sales procedures are developed by the Beer and NAB Division and implemented in tandem with dealers to ensure high quality of services. The extensive dealer network and efficient distribution system and also support the high return rate of the Beer and NAB's RGB system. See *"The Company—Production Facilities and Raw Materials—Raw Materials."*

The Beer and NAB Division has also formed a key accounts group to handle accounts management and business development of modern trade accounts such as supermarkets and convenience stores, and to increase visibility in selected on-premise outlets. As of December 31, 2020, the Beer and NAB Division, together with its dealers and account specialists, had a sales force of approximately 1,800 in the Philippines. The Beer and NAB Division continues to implement programs to strengthen its sales capabilities and systems.

#### International Market

International operations are conducted in Hong Kong, Indonesia, Thailand, China and Vietnam through SMBIL, a subsidiary of SMB. Subsidiaries of SMBIL include San Miguel Brewery Hong Kong Limited, which is listed on The Stock Exchange of Hong Kong Limited under stock code 236 and PT Delta Djakarta Tbk, which is listed on the Indonesia Stock Exchange under DLTA.JK.

There is a production facility each in China, Hong Kong, Indonesia, Thailand, and Vietnam, with an aggregate capacity of approximately 4.6 million HL/year. Third-party service providers transport the products produced from these production facilities to customers, consisting of dealers, wholesalers, retail chains, or outlets, depending on the market. A total sales force of approximately 460 employees are maintained in these five countries with seven sales regions in China, six in Indonesia and Thailand and four in Vietnam. In Thailand, all local sales are done through San Miguel Marketing (Thailand) Limited, a subsidiary of SMBIL.

In addition, SMBIL exports beer products to over 70 countries and territories globally in North America, South America, Europe, Africa, the Middle East, Australia and the rest of Asia. International operations accounted for 9.4% of the Beer and NAB Division's total sales for the year ended December 31, 2020.

Grupo Mahou San Miguel of Madrid, Spain has the rights to the San Miguel brand for beer in certain Western European and Mediterranean countries and is not affiliated with either SMB or SMC.

#### *Research and Development*

The Beer and NAB Division employs state-of-the-art brewing technology. Its highly experienced brewmasters and quality assurance practitioners provide technical leadership and direction to continuously improve and maintain high standards in product quality, process efficiency, cost effectiveness and manpower competence.

Technology and processes are constantly updated, and NPD is ensured through the research and development of beer and NAB products. R&D activities are conducted in a technical centre and pilot plant located in one of its production facilities. SMB also has a central analytical laboratory which is equipped with modern equipment necessary for strategic raw materials analysis and validation, beer and NAB product evaluation and new raw material accreditation. Specialized equipment includes gas chromatography, high performance liquid chromatography, atomic absorption spectroscopy, protein analyser, and laboratory scale mashing/milling system for malt analysis. Analytical methods and validation procedures are constantly enhanced and standardized across all the laboratories of SMB. The central analytical laboratory runs proficiency tests for brewery laboratories and suppliers to ascertain continuous reliability and quality of analytical test results. It is also tasked

with ensuring compliance of all systems with international standards, specifically ISO 17025:2017. To promote technical manpower development, the Beer and NAB Division runs the San Miguel School of Brewing, which offers various programs spanning all levels of professional brewing technical training, starting from the basic brewing course for newly hired personnel to the advanced brewing course for senior technical personnel. Courses offered at the school include those highly advanced classes necessary to qualify the most senior of its technical personnel known as brewmasters. Each of the 40 brewmasters has extensive advanced coursework from both in-house and international institutions and over ten years of on-the-job-training experience with SMB.

The Beer and NAB Division continues to pursue innovation to support growth and market leadership. New products and variants are explored and attuned to the evolving consumer profile and preferences. For example, in 2010, the NPD team formulated the first flavoured beer in the market which is the *San Miguel Flavored Beer* in apple and lemon flavours to appeal to younger drinkers. Owing to the success of the first two flavours, SMB introduced a lychee variant in 2019. *San Miguel Flavored Beer* is among the fastest growing beer brands in our portfolio since its launch.

To address shifts in consumer preference, SMB introduced San Miguel Free 0.0 in December 2020, the first zero-alcohol beer in the local market. The product is available in 330 ml bottle and can formats.

### Marketing

The Beer and NAB Division actively pursues marketing initiatives to promote new products, as well as to maintain and enhance brand awareness of existing products. These initiatives include media advertisements featuring well-known Philippine celebrities, sponsorship of special events, the conduct of various consumer and trade promotions and merchandising activities. Various channels such as television, radio, print and digital platforms are tapped to reach targeted segments. The Beer and NAB Division also utilizes outdoor billboards and posters in off-premise retail outlets, restaurants, bars and other on-premise outlets.

The Beer and NAB Division holds nationwide trademark, signature events and sponsors numerous other events. *San Miguel Beer Oktoberfest* has been the brand's flagship event for over three decades. This beer festival takes place at numerous locations across the Philippines, offers beer and features popular bands, celebrities, games and raffle promos. The National Beer Drinking Contest is also organized by SMB, consisting of beer drinking competitions in various locations across the country and culminating in one grand national competition, to gather the best beer drinkers in the Philippines. SMB also holds *San Miguel Pale Pilsen's* nationwide *Sarap Mag Babad* or *Taste of Summer* summer program, which is an annual get-together involving games, concerts and parties at the country's popular summer destinations. In addition to *San Miguel Pale Pilsen*, *Red Horse* is also strongly associated with rock concerts and has its own *Pambansang Muziklaban*, the first and biggest amateur rock band competition in the Philippines. For *San Mig Light*, SMB conducts electronic dance music-related initiatives such as *Party All Night* and *DJ Spin-Off* events. Aimed at younger drinkers, *San Miguel Flavored Beer* has a school fair event known as *SMFBU Fun Fair ng Barkada* or *Fun Fair with Friends*. Finally, digital placements and targeted visibility program are conducted in upscale outlets to promote specialty brands such as *San Miguel Premium All-Malt*, *San Miguel Super Dry* and *Cerveza Negra*.

### Competition

In the Philippine beer market, the major competitor for beer products is AB Heineken Philippines, Inc. ("ABHP"), a joint venture formed in 2016 between domestic brewer Asia Brewery Inc. and Heineken International B.V. ABHP offers a portfolio of local beers, foreign beers, some of which are produced under license from foreign brewers, and alcomix beverage products.

ABHP competes mainly through licensed Colt 45, a strong alcohol brand which is positioned against SMB's strong alcohol beer *Red Horse*, and local Beer na Beer in the economy segment, and Brew Kettle in the mainstream segment. It is also the exclusive distributor of Asahi Super Dry in the country. Following the joint venture in 2016, ABHP started marketing and selling imported Heineken beer and Tiger beer in the country, competing with SMB's premium and mainstream brands, respectively.

ABHP also offers Tanduay Ice, which is a line of alcopop beverages positioned similar to beer. Competition from imported beers and local craft beers is minimal. These products comprise a small portion of the market and are primarily found in upscale hotels, bars, restaurants and supermarkets in Metro Manila and other key cities.

The Beer and NAB Division's beer products also compete with other alcoholic beverages, primarily brandy, gin,

rum and alcopops which are close substitutes to beer. In the beer industry—and more generally the alcoholic beverage industry— competitive factors usually include price, product quality, brand awareness and loyalty, distribution coverage, and the ability to respond effectively to shifting consumer tastes and preferences. SMFB believes that the market leadership, size and scale of operations, and extensive distribution network in the Philippines provide the Beer and NAB Division with significant competitive advantages in the Philippines.

In the non-alcoholic beverage market, competition is from established players and brands in ready-to-drink juice and ready-to-drink tea. For example, Zest-O, Tropicana Twister and C2 compete with *Magnolia Fruit Drink*, while Lipton and Nature’s Spring Iced Tea compete with *Magnolia Healthtea*.

In its main international markets, the Beer and NAB Division’s beer products contend with both foreign and local beer brands, such as Blue Girl (Hong Kong), Carlsberg (Hong Kong, Thailand and Vietnam), Heineken (Hong Kong, South China, Thailand, Vietnam and Indonesia), Tsingtao (Hong Kong and China), Zhujiang (China), Tiger (Thailand, Vietnam and Indonesia), Guinness (Hong Kong and Indonesia), Bintang (Indonesia), Budweiser (Hong Kong and China) Snow (China), Skol (Hong Kong), Singha and Asahi (Thailand), and Saigon Beer (Vietnam).

### *Taxation*

In the Philippines, excise tax represents a significant component of beer production costs. The Philippine Tax Code provides for the excise taxes on alcohol products, including fermented liquor, such as beer, and the Bureau of Internal Revenue (“**BIR**”) requires establishments subject to such taxes to obtain a permit to manufacture such products in order to enforce the collection and payment thereof.

Under the Philippine Tax Code, excise tax on fermented liquor is determined per litre of volume capacity in relation to the net retail price (excluding the excise tax and value added tax thereon) and is payable by the producer. The tax rate varies depending on the type of alcoholic beverage being produced, with more expensive products being subject to higher rates. Excise tax accounts for a significant portion of SMB’s production costs.

Effective January 1, 2017, Republic Act No. 10351 imposed a unitary tax rate of ₱23.50 per litre on all fermented liquors, except those affected by the “no downward classification clause”, which was a change from the two-tier tax structure imposed in 2013. Several of SMB’s products were affected by the “no downward reclassification” clause in the law and were thus subjected to higher excise tax rates. The unified tax rate in 2017 of ₱23.50 for all fermented liquor products will be increased by 4% annually until reviewed and amended by an act of Congress.

On January 22, 2020, President Duterte signed Republic Act No. 11467, which amended certain provisions of the Philippine Tax Code and sets additional excise tax on alcoholic beverages. Effective January 1, 2020, the new excise tax rates for fermented liquor is ₱35.00 per litre. The excise tax will then increase to ₱37.00 per litre in 2021, ₱39.00 per litre in 2022, ₱41.00 per litre in 2023, and ₱43.00 per litre in 2024. Effective January 1, 2025, the excise tax rate shall will be increased by 6% every year thereafter.

For distilled spirits, an additional *ad valorem* tax of 22% of the net retail price (excluding excise tax and VAT) shall be assessed and collected. In addition to the *ad valorem* tax, a specific tax at the following rates shall be collected: ₱42.00 per proof litre effective January 1, 2020, ₱47.00 per proof litre in 2021, ₱52.00 per proof litre in 2022, ₱59.00 per proof litre in 2023, and ₱66.00 per proof litre in 2024. The specific tax will be increased by 6% every year thereafter, effective January 1, 2025, through revenue regulations to be issued by the Secretary of Finance.

The sale of beer and non-alcoholic beverages in the Philippines is also subject to value-added tax and withholding tax, when applicable.

The Beer and NAB Division’s beer products are also subject to excise tax in the markets in which the international subsidiaries operate.

### *Intellectual Property*

Brands, trademarks, patents and other related intellectual property rights used by the Beer and NAB Division in respect of its beer and malt-based beverage products (including *Cali*) are either registered or pending registration in the name of Iconic Beverages, Inc. (“**IBI**”) in the Philippines. The brands, trademarks and patents

used by the Beer and NAB Division in respect of its non-alcoholic beverage products (other than Cali) are licensed from SMC. Most of the brands, trademarks and other intellectual property rights used in its international operations are registered or pending registration in the name of SMBIL, with certain local brands in the name of SMBIL's subsidiaries in Hong Kong and Thailand. IBI and SMBIL are wholly-owned subsidiaries of SMB.

### *Quality Control, Health, Safety and Environmental Matters*

The domestic operations of the Beer and NAB Division are subject to various regulations concerning health, safety and protection of the environment.

The FDA, an agency under the Department of Health (“DOH”), administers and enforces the law, issues rules and circulars on safety and good quality supply of food, drug and cosmetic to consumers, and regulates the production, sale, and traffic of the same to protect the health of the people. The DOH also prescribes the Guidelines on Current Good Manufacturing Practice in Manufacturing, Packing, Repacking, or Holding Food for food manufacturers, which provide for the minimum operating standards, procedures and requirements in respect of the operations and facilities of establishments engaged in the manufacture, packing, repacking or holding of food products. The Consumer Act of the Philippines seeks to protect consumers against hazards to health and safety and against deceptive, unfair and unconscionable sales acts and practices; and provide information and education to facilitate sound choice and the proper exercise of rights by the consumer, including means of redress in cases of violations of such rights. For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The Beer and NAB Division is also subject to extensive environmental laws and regulations implemented by the DENR, including the Philippine Environmental Impact Statement System, which is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical; or (ii) is situated in an environmentally critical area. An entity that undertakes any environmentally critical project or operates in any environmentally critical area is required to submit an Environmental Impact Statement and secure an Environmental Compliance Certificate (“ECC”). This ECC requirement applies to all production facilities. Other environmental laws and regulations applicable to domestic operations of the Beer and NAB Division include the Philippine Clean Water Act of 2004, the Philippine Clean Air Act, the Water Code, the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 and the Biological Solid Management Act of 2000. See “*Regulatory Framework—Environmental Matters.*”

International operations are also regulated by various applicable laws in their respective markets, including the regulations on food labelling in China and Hong Kong and environmental regulations, among others.

### *Spirits Division*

Through GSMI, the Spirits Division is a leading spirits producer in the Philippines and the largest gin producer internationally by volume, according to GlobalData as of 2018. According to The Nielsen Company (Copyright © 2020, The Nielsen Company), the core spirits brands, Ginebra San Miguel and VINO Kulafu are also market leaders in the gin and Chinese wine categories at 92% and 71% volume share, respectively, as of December 31, 2020. Further, GSMI produces some of the most recognizable spirits in the Philippine market, including gin, Chinese wine, brandy, vodka, rum and others and enjoys 32.3% over-all industry market share as of the same period, according to The Nielsen Company (Copyright © 2020, The Nielsen Company).

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 honour of the pioneering gin brand. GSMI's flagship brand, Ginebra San Miguel, contributed about 90% to GSMI's total sales for year ended December 31, 2020.

The Spirits Division operates one distillery and five bottling plants in the Philippines with a combined annual distillation capacity of 80 million litres and bottling capacity of 66 million cases. Each case generally contains either 24 units of 350mL each or 12 units of 700mL each. The distillery of Distileria Bago, Inc. (“DBI”), which is a wholly-owned subsidiary of GSMI, is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines. Its distribution network has nationwide coverage reaching approximately 150,000 outlets across the archipelago through 89 dealer sites and 15 sales offices as of

December 31, 2020.

GSMI is a public company listed on the PSE under the stock symbol “GSMI”. The market capitalization of GSMI was ₱14,145 million, with a common share price of ₱49.40, as of December 29, 2020.

For the years ended December 31, 2018, 2019, and 2020, GSMI’s sales were ₱24,835 million, ₱29,063 million, and ₱36,202 million, and net income was ₱1,053 million and ₱1,672 million, and ₱2,757 million, respectively.

### *Products and Brands*

The Spirits Division is one of the major players in the liquor market, given its diverse portfolio of products with core brands such as *Ginebra San Miguel* and *Vino Kulafu*, which continue to lead in the gin and Chinese wine categories, respectively, according to GlobalData as of 2018.

The Spirits Division believes that consumer preferences in the Philippine spirits market vary significantly by geographical region—consumers in Northern Philippines tend to prefer gin and brandy, while consumers in Southern Philippines tend to prefer rum and Chinese wine. In recent years, brandy has gained popularity in both the Northern and Southern parts of the Philippines. The Spirits Division capitalizes on the strength of its flagship brand *Ginebra San Miguel* and its wide range of products in expanding its business, particularly in the Southern part of the Philippines.

Spirits products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum*, *Tondeña Manila Rum*, *Gran Matador Solera*, *Gran Reserva Brandy*, *Gran Matador Gold* 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.

Over the years, the Spirits Division has received numerous international awards for product quality and excellence. Since 2005, a total of 85 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2020 included gold medals from Monde Selection for *Ginebra San Miguel*, *Vino Kulafu*, *GSM Blue Flavors Mojito*, *GSM Blue Flavors Pomelo*, *GSM Blue Light*, *Ginebra San Miguel Premium Gin*, *Añejo Gold Medium Rum*, and *Antonov Vodka*, and silver medals for *GSM Blue Flavors Margarita* and *Primera Light Brandy*.

### *Production Facilities and Raw Materials*

#### Production Facilities

The Spirits Division operates one distillery and five bottling plants. The distillery is strategically located in Negros Occidental Province, the largest molasses producing region in the Philippines, and has a distillation capacity of 80.0 million litres per annum while the bottling plants are located across the archipelago with a total annual bottling capacity of 66 million cases.

The five bottling plants are located in Luzon and Visayas, namely: (1) the Cauayan plant located in Isabela Province and established in 2010; (2) the Sta. Barbara plant located in Pangasinan Province and established in 1992; (3) the Ligao plant located in Albay Province and established in 2010; (4) the Cabuyao plant located in Laguna Province and established in 1996; and (5) the Mandaue plant located in Cebu Province and established in 1964.

The production facilities located in Sta. Barbara, Pangasinan; Cabuyao, Laguna; Mandaue City, Cebu; Bago City, Negros Occidental; Cauayan, Isabela; and Ligao City, Albay are compliant with the requirements of ISO 9001:2015.

Thai San Miguel Liquor Co. Ltd. (“TSML”), a joint venture of GSMI and Thai Life Group of Companies, has a production facility located in Kanchanaburi, Thailand with a 75 kilo litres per day (KLPD) distillery column and a bottling line that has an annual production capacity of 22 million litres and six million cases, respectively.



## Raw Materials

Alcohol is the main raw material used for spirits, which is made by converting sugarcane molasses to alcohol at the DBI distillery. To mitigate the impact of the increasing price *vis-à-vis* the foreseen decreasing availability of sugarcane molasses for use in the production of spirits, since it is also used as the main material in the Philippine government's clean fuel program, the Spirits Division, among others, directly purchases crude and GSMI-spec alcohol from a variety of third-party suppliers pursuant to supply contracts in the domestic and foreign open markets. DBI also has a separate facility which can use cassava starch milk as an alternative raw material in the production of alcohol.

Products are packaged in glass bottles, the majority of which are sourced from the Packaging Group. In addition to using new glass bottles, the Spirits Division maintains a network of washed second-hand bottle suppliers in the Philippines. The suppliers retrieve, sort and wash *Ginebra San Miguel* glass bottles, which are bought back by GSMI to be recycled and reused. For the year ended December 31, 2020, approximately 53% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers. A stringent quality control system is maintained to monitor procedures and address safety concerns in the use of recycled bottles. The Spirits Division believes that bottling costs for any particular product could be sustained over time with the continuous use of second-hand bottles. Thus, the Spirits Division has actively implemented programs to expand its network of second-hand bottle suppliers in the past three years.

## *Sales and Distribution*

The Spirits Division primarily markets, sells and distributes its products in the Philippines to consumers through territorial distributorship made up of a network of 89 dealer sites and 15 sales offices strategically situated across the country as of December 31, 2020. The Spirits Division's sales team and key accounts group directly serves off-premise outlets such as mom and pop stores, supermarkets, grocery stores, and convenience stores, as well as on-premise outlets such as bars, restaurants and hotels. Approximately 150,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 95% of total outlets and modern trade outlets, accounting for 5% of total outlets.

At the centre of the product distribution and movement is the Spirits Division's logistics group. It spearheads the planning, coordination and delivery of finished goods from the different plants to various sales offices, warehouses, dealers, wholesalers and select retailers.

Direct shipments to dealer sites are made through third-party haulers while company-owned routing trucks deliver to directly served outlets. To expand distribution coverage and supplement the Spirits Division's own logistical assets, it also engages third-party service providers to handle warehouse management and product delivery to various destination points. The turn-around time for the delivery of the products from the bottling plants to the dealer is four to seven days for in-land deliveries and 9 to 14 days for offshore deliveries.

While the Spirits Division has already established a good number of dealer sites throughout the country, one key distribution strategy is to continuously develop and acquire new dealers in areas with high volume potential, especially in the geographically segmented Southern Philippines. This strategy is anchored on the deployment of direct selling operations teams, who will focus on exploring and nurturing underserved areas until these become commercially feasible for an existing or new dealer to take-over. Initiatives have also been implemented, such as systems improvement, trainings, incentive programs, merchandising, posterings and multiple localized below-the-line activities to sustain and ensure continuous growth in volume.

## *Research and Development*

The Spirits Division continuously develops new products as it seeks to expand its existing product lines and maintains a well-equipped laboratory that provides capabilities to develop innovative product formulations as well as a dedicated technical group focused on NPD. In addition to the popular Mojito that is a variant of *GSM Blue Flavors*, which was launched in 2012, new variants Margarita and Gin Pomelo were introduced in 2017 to bring excitement and more options to younger consumers.

In May 2019, a new and improved *Añejo Gold Rum* was relaunched in select cities in Visayas and Mindanao. Aged in imported oak barrels for 12 years, this reformulated 65 proof version is superior in taste and aims to become the new standard of rum. It delivers a distinct vanilla flavour, as well as a smoky oak tone, it is aromatic, and aims to provide a smooth drinking experience. Marketed as a product that exudes high quality, yet

positioned as an economically priced low-proof rum targeting hard liquor consumers of Southern Philippines.

In June 2020, GSMI launched GSM Blue Flavors Tamarind Punch, a limited-edition summer variant. It also launched Ginebra San Miguel Hari, a one-liter product format of its flagship product.

The R&D team also develops product formulations for certain toll manufacturing customers, such as the *Don Papa Rum* and all of its limited-edition variants. These are sold predominantly in Europe, North America, Australia, New Zealand and select Asian countries.

### Marketing

The Spirits Division is focused on growing its core gin products. Recent thematic campaigns such as the slogan “*Pilipino Ako, Ginebra Ako*” aid in reinforcing the flagship brand *Ginebra San Miguel* as a leading gin brand in the market. Targeted product launches allow GSMI to capture new drinkers and markets. New product offerings also aim to serve the dynamic consumer market in key areas in Northern Philippines, such as the lower proof alcohol products through the launch of several *GSM Blue Flavor* variants.

As the leading gin player, the *Ginebra San Miguel* brand spearheads the annual commemoration of World Gin Day, which is held in June. The local version has been extended into a month-long festivity with pocket activations in popular hangouts nationwide. There is also the widely anticipated GSMI calendar featuring a popular celebrity and the “*Ginumanfest*”, a concert series that is hosted by GSMI to coincide with major provincial *fiestas* and in select barangays across the country.

The Spirits Division has a very popular professional basketball team, the *Barangay Ginebra San Miguel*, whose players are regularly used in its advertising campaigns. This nurtures a preference for the GSMI brands and products because of a strong affinity to the *Barangay Ginebra San Miguel* basketball team as basketball continues to be a well-loved and one of the most watched sport in the Philippines. Product advertisements are commonly streamed through television, radio, print and billboards. The Spirits Division has also explored new marketing channels, utilizing digital advertising, and sponsoring special events and consumer and trade promotions, to create a new generation of gin consumers.

### Competition

In the Philippine spirits market, competition among the major players revolves around brand equity through above and below the line advertising activities, price leadership, NPD, raw material security, production efficiency and distribution. GSMI’s major competitor for spirits products are Emperador Distillers, Inc. and Tanduay Distillers Inc. The former is largely known for its Emperador Light Brandy which is popular among the young working class in Greater Manila and most urban cities. Tanduay Distillers, Inc.’s Tanduay Rhum Dark Five Years is a staple hard liquor drink in the Visayas and Mindanao region. *Ginebra San Miguel* is the preferred brand in northern and southern Luzon as of 2017 according to Global Data. As the Chinese wine segment has also seen an increase in consumption in recent years, the Spirits Division’s *Vino Kulafu* has emerged as the top choice in this category as of 2017 according to GlobalData. Patronage mostly comes from various islands in the Visayas and parts of Mindanao.

### Intellectual Property

The Spirits Division registers its trademarks, industrial design and copyright used or intended to be used in its products and business with, among others, to the Intellectual Property Office of the Philippines and equivalent authorities outside the Philippines. The Spirits Division also ensures that such registrations are maintained and promptly renewed, subject to relevant laws, rules and regulations.

All of Spirits Division’s trademarks for its products sold in the Philippines and in the relevant foreign markets are either registered or have pending registration applications in its name or in the name of SMC. The Spirits Division’s use of the SMC trademarks is duly authorized by SMC. The Spirits Division has also applied for registration or registered in its name, among others, the trademarks *Vino Kulafu* and *Primera Light*, label designs of *GSM Blue Flavors* and label designs and bottles for *Ginebra San Miguel*, while the trademarks *GSM Blue*, *Antonov Vodka*, and *Don Enrique Mixkila* are registered in the name of SMC. The Spirits Division also has an industrial design registration for its bottle *Ginebra San Miguel* (round/“*bilog*”) and has existing copyright certificates of registration over certain pictorial illustrations and radio materials which were used for advertising *Vino Kulafu*.

Trademarks used by the Spirits Division are likewise registered in various countries including Thailand, the U.S., China, Canada, Hong Kong, India, Italy, Kuwait, New Zealand and Taiwan.

#### *Quality Control, Health, Safety and Environmental Matters*

The Spirits Division is compliant with applicable statutes and regulations on health, safety and environment and possesses the required permit and licenses to operate its production facilities.

Health and safety programs of the Spirits Division focus on creating a suitable working environment to ensure that its processes result in quality products and services. This suitable working environment is a combination of favourable human and physical factors such as social (e.g., calm, non-discriminatory and non-confrontational), psychological (e.g., stress-reducing, burn-out protection, emotionally protective), and physical (safe, ergonomic, temperature, heat, humidity, light, hygiene, noise and space) factors.

The Spirits Division, in compliance with the DOLE requirement, has established a safety committee headed by a safety officer for each of the Spirits Division production facilities, which is tasked to conduct job hazard analyses and near miss/incident/accident investigation, and regular site inspections. For each of the Spirits Division production facilities, there is also a crisis committee tasked to immediately attend to civil disturbances and natural calamities and fire brigades for fire safety concerns.

All employees undergo annual physical and medical examinations. There are assigned nurses in every production shift, as well as medical doctors where needed. The Spirits Division production facilities also have their pool of first aid providers.

The Spirits Division's manufacturing group also conducts safety audits of the Spirits Division production facilities and recognition and awards are given to outstanding safe plants during the Spirits Division's annual Supply Chain Conference.

As for environmental management, the Spirits Division's production facilities have waste water treatment facilities, air pollution abatement devices with CCTV monitors on smoke stacks, material recovery facilities for recycling packaging materials, and control system for hazardous wastes. The Spirits Division has commenced efforts to implement Environmental Management System based on ISO 14001:2015 standard and its production facilities also have self-monitoring activities for their respective environmental programs, which are reported to the DENR on a quarterly basis.

#### **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 foodservice 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 and canned meats, *Star* and *Dari Crème* for margarine, *San Mig Coffee* for coffee, *La Pacita* for biscuits, and *B-Meg* for animal feeds.

The breadth of the Food Division 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 ("**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**").

For the years ended December 31, 2018, 2019, and 2020, sales for the Food Division amounts ₱132,298 million, ₱139,455 million, and ₱135,169 million, respectively.

For the years ended December 31, 2018, 2019, and 2020, operating results for the Food Division amounts to ₱8,826 million, ₱6,176 million, and ₱5,132 million respectively.

## ***Food Division Segments and Products***

### ***Prepared and Packaged Food***

The Prepared and Packaged Food segment includes refrigerated meats, canned meats, dairy, ice cream, spreads and oils, biscuits and coffee.

The major operating subsidiaries for the Prepared and Packaged Food segment are Purefoods-Hormel, Magnolia, Inc. and San Miguel Super Coffeemix Co., Inc. (“**SMSCCF**”). Purefoods-Hormel produces and markets value-added refrigerated processed meats and canned meat products. Value-added refrigerated meats include hotdogs, nuggets, bacon, hams, and other ready-to-heat meal products, which are sold under the brand names *Purefoods*, *Purefoods Tender Juicy*, *Star*, *Higante*, *Purefoods Beefies*, *Vida* and *Purefoods Nuggets*. Canned meats, such as corned beef, luncheon meats, sausages, sauces, meat spreads and ready-to-eat viands are sold under the *Purefoods*, *Star* and *Ulam King* 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 *Cheezee* 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, salad aids like mayonnaise and dressings, are under the *Magnolia* brand. Cooking oil products are sold under the *Magnolia Nutri-Oil* brand.

### ***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 San Miguel Foods.

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* and *Jumbo*.

### ***Protein***

The Protein segment is in the business of poultry and fresh meats. San Miguel Foods is also the operating subsidiary for the Protein segment.

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 Fresh Chicken* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. 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 neighbourhood meat shops under the well-recognized *Monterey* brand name.

### ***Others***

Flour milling, premixes and baking ingredients, foodservice and franchising together with 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 business operates under San Miguel Mills, Inc. (“**San Miguel Mills**”). The international operations of the Food Division are located in Indonesia and Vietnam and conducted through PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah) (“**PTSMPI**”) and San Miguel Pure Foods (Vn) Co., Ltd. (“**SMPFVN**”) in Vietnam, a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPI and SMPFVN are in the business of production and marketing of processed meats.

The foodservice business of the Food Division is handled by Great Food Solutions, a group under San Miguel Foods. Great Food Solutions, which services institutional accounts such as hotels, restaurants, bakeshops, fast

food and pizza chains, markets, and distributes foodservice formats of the value-added meats, fresh meats, poultry, dairy, oil, flour, and coffee businesses.

### ***Production Facilities and Raw Materials***

The Food Division uses both company-owned and third-party owned facilities for production purposes. As of December 31, 2020, facilities include 31 feedmills, 56 processing plants, and close to 1,300 breeding and growing farms located across Luzon, Visayas, and Mindanao.

The Food Division is not dependent on one or a limited number of suppliers for its essential raw materials and supplies, except in respect of the coffee business, as coffee mixes are provided solely by Super Coffeemix Manufacturing Ltd. (Thailand) Company (“**SCML Thailand**”). Apart from its coffee business, the Food Division believes that its operations will not be disrupted if any supplier refuses or cannot meet its delivery commitment.

### ***Prepared and Packaged Food***

#### Production Facilities

The production facilities for the Prepared and Packaged Food segment are located in Luzon. Three production facilities are located in Cavite, two of which are for meat processing operations for the manufacture of hotdogs, nuggets, hams, bacon, sausages, meat toppings, and sauces. The third facility manufactures bread spread products through a process that includes pasteurization, blending, chilling and packing for bread spreads, and cooking, filling, pre-packing and end-packing for cheeses. Ice cream and biscuits are manufactured at company-owned facilities located in Sta. Rosa, Laguna and Antipolo City, respectively. Flour mixes under the *Magnolia* brand, on the other hand, are manufactured at company-owned facilities in Mabini, Batangas.

Milk, all-purpose cream, jelly-based snacks and cooking oil products are manufactured in third party-owned plants under tolling arrangements, all of which meet quality standards. Other toll-manufacturing agreements with Halal-accredited facilities are also maintained to augment its production capacity, meet periodic volume increases, and enable exports of corned beef and hotdogs to the Middle East and predominantly Muslim countries.

#### Raw Materials

The primary raw materials used for refrigerated and canned meats are chicken, beef and pork primal cuts, most of which are sourced through the Business Procurement Group (the “**BPG**”) of the Food Division, which strives to secure prices lower than prevailing market or published rates. The BPG maintains a pool of accredited suppliers for local and imported raw materials, which are regularly audited by a quality assurance team.

All of the procurement, manufacturing and pre-packing of raw materials for coffee products are handled by SMSCCI’s partner in Singapore and Thailand. Coffee mixes are imported through SCML Thailand while re-packing, marketing, selling and distribution are done in the Philippines.

### ***Animal Nutrition and Health***

#### Production Facilities

For the Animal Nutrition and Health segment, compound feeds are manufactured at 14 company-owned feedmills, six of which are located in Luzon, four in Visayas and four in Mindanao, plus 17 third party-owned and operated feed plants located throughout the Philippines. Most of these plants are capable of producing pelleted and crumble format feeds and two plants have extrusion capabilities to produce aquatic floating feeds. The feeds business also maintains tolling arrangements for nine rendering facilities that convert animal by-products used as raw materials into some feed types.

#### Raw Materials

The largest single cost component for feeds is the cost of ingredients used to prepare nutritionally balanced feed including corn, soybean meal, cassava, feed wheat, pollard, rice bran, copra and pork meal. Corn is purchased locally from corn traders and occasionally from suppliers in the U.S., South America and Southeast Asia.

Prices of raw materials are subject to significant volatility due to extreme weather conditions, size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rate fluctuations and other factors. See “*Risk Factors—Shortage of raw materials.*” To minimize the adverse effects of unexpected price increases, the Food Division enters into hedging transactions and maintains strategic buying programs.

### *Protein*

#### Production Facilities

For the Protein segment’s poultry business, company-owned facilities include two poultry processing plants located in Cebu and Davao, one poultry hatchery located in Laguna and one poultry breeder farm located in Bataan. All of these company-owned facilities are operated by third parties.

The poultry business primarily utilizes third party-owned facilities operated under tolling arrangements. As of December 31, 2020, all of the poultry growing output and 97% of processing output were from tolled facilities. Approximately 96% of these poultry growing facilities employ climate-controlled systems, which improve biosecurity and provide more comfortable and stable temperatures in growing facilities, thus, increasing efficiency and reducing mortalities. Supporting its vertically controlled poultry operations are two company-owned processing plants, 29 processing plants operated under tolling arrangements and an extensive network of third-party cold storage warehouses and distribution facilities throughout the Philippines.

For the Protein segment’s fresh meats business, the company maintains one company-owned hog farm located in Bukidnon and a hog slaughterhouse in Cavite, which are both operated by third parties. The Protein segment maintains a vertically integrated operation, allowing the business to have control and oversight of the entire value chain from the selection of genetic stocks to growing and processing of hogs, to selling, mainly through the Monterey Meatshop network.

Hog raising operations use a two-site system which separates breeding from nursery and growing into isolated facilities to minimize the risk and spread of disease. As of December 31, 2020, about 88% of the business’ hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 63% of these employ climate-controlled as well as elevated housing systems, which provide more comfortable and stable temperatures in growing facilities, thus increasing efficiencies and reducing mortalities.

The Protein segment is building two poultry facilities capable of processing approximately 65 million heads for the period 2019 to 2021. Two new fresh meat processing plants are planned to be located in Luzon.

#### Raw Materials

Breeder flocks (grandparents of birds) are raised to maturity in grandparent growing and laying farms where fertile eggs are produced. The poultry business imports its breeder stocks primarily from Aviagen and Cobb Vantress Inc., both of which are agri-business firms based in the U.S. Fertile eggs are hatched at the grandparent hatchery and produce day-old parent stock (parents of birds). Parent stocks are then sent to breeder houses, and the eggs produced are sent to the hatcheries. Once eggs are hatched, the day-old chicks are sent to the broiler farms where they are cared for and raised by contract growers according to the Food Division’s standards until the chicks reach marketable weight. Fully-grown chickens are transported to processing plants, where they are processed into finished products, which are then sent to distribution centres and sold to customers.

For the year ended December 31, 2020, the fresh meats business sourced more than 90% of its live hogs from contract growing farms.

### *Others*

#### Production Facilities

The flour milling business owns two flour mills, located in Mabini and Tabangao in Batangas, and two flour blending facilities in Mabini, Batangas which produces customized flour products. The flour business also operates a premix plant, which produces different premix products for both the retail and the institutional markets.

Production capabilities are supported by its Flour Technology Centre located in Pasig City, Metro Manila, which develops customized flour blends and new flour-based products.

San Miguel Mills owns the Golden Bay Grain Terminal located in Batangas Province, which can accommodate Panamax-sized vessels and has an estimated discharge rate of at least 10,000 metric tons per day. The terminal has provided the flour milling business an advantage in materials handling, as vessels can offload larger quantities of raw materials directly to the flour milling facilities, thus, minimizing intermediate handling, leakage and costs as well as generate savings in freight costs from the use of bigger vessels. The terminal is adjacent to the flour mill located in Mabini, Batangas and also services the grain handling requirements of the Animal Nutrition and Health segment. The Golden Bay Grain Terminal also services external customers such as commercial grains traders.

The additional flour milling facility, in Mabini, Batangas started commercial operations in December 2019. The Food Division also completed construction of its new ready-to-eat production facility and is currently under commissioning.

#### Raw Materials

Historically, approximately 70% of the wheat requirements of the flour milling business are sourced from the U.S. with the remainder sourced from various countries. World wheat prices are monitored daily by BPG to determine long-term and short-term buying strategies to control costs. For the year ended December 31, 2020, up to 90% of raw materials, particularly wheat, were imported from the U.S. and Canada.

#### ***Sales and Distribution***

The Food Division sells its products through three channels, namely, general trade, modern trade and institutional accounts. General trade channels include traditional trade markets in the Philippines, such as small grocery stores, wholesalers and dealers and bakeries, wet markets and mom and pop stores. Modern trade channels include hypermarkets, supermarkets and convenience stores. Institutional accounts include quick service restaurants and hotels, bakeshop chains, food manufacturers, large commercial farms, and exports. Products are exported to Asia, North America and Europe mainly to supply Filipino communities abroad.

#### ***Prepared and Packaged Food***

San Miguel Integrated Sales handles the sale and distribution of products under the Prepared and Packaged Food segment through modern trade channels (e.g., major supermarket chains, hypermarkets, groceries and convenience stores), general trade channels (e.g., market traders and mom and pop stores), wet market traders and retail outlets. The Prepared and Packaged Food segment's products are distributed by Great Food Solutions to institutional and foodservice operators, such as hotels, restaurants, fast food chains, food kiosks and carts.

Domestic distribution is handled by the outbound logistics group, which manages planning, technical logistics services, warehousing and transportation, while the international business handles exports to serve Filipino communities in Asia, North America, the Middle East, and Europe.

#### ***Animal Nutrition and Health***

The Animal Nutrition and Health segment produces for both the Food Division's internal requirements and for the commercial feeds market. As of December 31, 2020, 53% of the production volume was used for the Food Division's internal requirements, while the remaining 47% was sold to the commercial feeds market. Feeds supplied to the Protein segment are not included in the revenue or volume sold of the Animal Nutrition and Health segment.

As of December 31, 2020, approximately 87% of products are sold through authorized distributors within a defined territory, while 13% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 15 sales offices across the Philippines with dedicated sales teams supported by technical experts focused on growing existing markets and developing new ones.

#### ***Protein***

The Food Division sells its Protein segment products through a variety of channels. Modern trade channels,

which includes *Magnolia Chicken Stations* for poultry, *Monterey Meatshops* for fresh meats, supermarkets, convenience stores and membership shopping club outlets. General trade channels include wet markets, commissaries, wholesalers, distributors, and buyers of live birds and hogs. Institutional accounts include exports, quick-service restaurants and hotels. In addition, the Protein segment supplies a portion of the requirements of the Prepared and Packaged Food segment.

Protein products are distributed to two market segments through the above-mentioned channels in order to maximize market penetration throughout the Philippines:

- commodity segment (such as wet markets and live chicken and hog buyers), and
- stable-priced segment (such as *Magnolia Chicken Stations* in supermarkets, *Monterey Meatshops*, and foodservice and export clients).

The Magnolia Chicken Station was a concept developed by the poultry business to bring the wet market to the supermarket. These stations offer more choices of cuts and better customer service in a clean and hygienic environment. As of December 31, 2020, there are more than 1,300 Magnolia Chicken Stations nationwide, 17% of which are franchisee-owned. The remainder of these outlets are located in supermarkets and are handled by third-party operators through a modified consignment arrangement.

The Food Division pioneered in the branding of fresh meats by launching the Monty's supermarket meat shop in 1990, which eventually became a network of neighbourhood meat shops under the Monterey brand. This strategy was successful in differentiating its high-quality meat products from those of competitors. Pork, beef and marinated meats products are sold in hygienic and air-conditioned Monterey Meatshops which are manned by well-trained staff.

As of December 31, 2020, there were more than 600 Monterey Meatshops throughout the Philippines, 66% of which were franchised, with the remainder being company-operated.

To increase sales volumes and improve profitability, the Protein segment provides marketing support to franchisees and actively seeks entrepreneurs to become franchisees.

Majority of the Protein segment's products are distributed directly from production facilities to supermarkets and foodservice operators. The distribution infrastructure includes a network of cold storage facilities located throughout the Philippines and a large fleet of third-party contracted vehicles.

#### *Others*

The flour milling business of the Food Division focuses on offering the widest array of differentiated flour products in the Philippine market. The flour application specialists, in support of the sales team, determine the specific flour product requirements of its customers as well as conduct field baking tests of the products to demonstrate their application. For customized products, the R&D team and the sales team work side by side with the customers to develop formulations specific to their requirements. The Food Division manages a nationwide distribution network that distributes flour and other bakery ingredients to major bakeries and other flour users.

Great Food Solutions, SMFB's foodservice business, distributes and markets foodservice formats for value-added meats, fresh meats, poultry, dairy, oil, flour and coffee. Great Food Solutions receives a development fee from other Food Division subsidiaries for selling their products to foodservice institutional clients. The key strategies of the foodservice business include selling customized solutions, direct marketing to customers and focused relationship management.

#### ***Research and Development***

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, the Food Division's R&D teams engage in continuous activities to identify cost and production process improvements. Among others, cost reductions have been achieved using alternative raw materials, from grains and by-products used in the feed products to alternative protein sources and flavours in processed meats.

The Food Division owns several R&D facilities that analyse average daily weight gain, feed conversion efficiency and other performance parameters. Results of these analyses are immediately applied to commercial



feed formulations to minimize costs and maximize animal growth.

Each R&D team also engages in the development, reformulation and testing of new products and believes that each team's continued success will be affected in part by its ability to be innovative and attentive to consumer preferences and local market conditions. In recognition of the importance of ongoing product innovation, the R&D teams regularly conduct consumer surveys and works closely with the Corporate Innovations Group that spearheads a company-wide innovation program to introduce breakthrough products and services.

Aside from product innovations, the R&D teams of the Food Division also look into efficiency improvement for operations through the use of new technology such as climate-controlled housing system for hogs and broilers as a measure of increasing production cycles per farm per year, improving feed consumed to weight ratio and getting better harvest recovery. The "Big Bird" initiative is the selective breeding innovation that optimizes the growth potential of the breed, resulting in lower cost to produce.

### ***Marketing***

The Food Division's marketing efforts are focused on reaching more consumers and promoting increased consumption of its products through brand-building activities in all forms of media, from television and print ads to digital marketing as well as promotional events and sponsorships. The Food Division develops marketing programs that emphasize quality, freshness and convenience of its products. For example, the flagship hotdog brand, *Purefoods Tender Juicy* uses the "experts" campaign where "Kids Can Tell" the difference between *Purefoods Tender Juicy* and other hotdog brands. For the blue line of canned meats, the key campaign is "*Pure Sarap Purefoods*" (or Purely Delicious) which instills the notion that great meals start with pure intentions. The slogan for *Magnolia Chicken* is "*Pambansang Manok*" (or roughly translated to as "*National Chicken*") with the theme that if you want the best, then *Magnolia Chicken* is the Nation's Choice. *Magnolia Chicken* is packed with Omega-3, raised in stress-free environments, free from hormones and steroids and free from antibiotic residues. The Food Division taps television and cable commercials, digital presence in both Facebook and YouTube among others, and out of home promotions such as billboards, taxi ads and culinary events.

### ***Competition***

#### ***Prepared and Packaged Food***

The Food Division is a market leader in the Prepared and Packaged Food category (excluding coffee).

In recent years, the Prepared and Packaged Food segment has faced increased competition mainly from other local players, which are employing aggressive pricing and promotion schemes. Competitors and competing brands in the branded processed meats category include Foodsphere, Inc. (CDO), Virginia Foods, Inc. (Virginia), and Century Pacific Food Inc. (Swift and Argentina). To maintain its leadership position, the Food Division adheres to its very strict quality standards, drives innovation in its portfolio and enhances consumer experience through strategic alliances with institutions such as theme parks, events venues and schools.

According to The Nielsen Company (Copyright © 2020, The Nielsen Company), as of December 31, 2020, the Food Division has 63.2% market share for hotdogs and 25.8% for corned meats. On the other hand, market share for luncheon meats was 13.4% as of September 30, 2020.

According to The Nielsen Company (Copyright © 2020, The Nielsen Company), as of the year ended December 31, 2020, the Food Division has a market share of 41.6% for refrigerated butter, 94.5% for refrigerated margarine and 97.9% for non-refrigerated margarine, competing with Fonterra Cooperative Group Limited and Elle & Vire International (for butter) and CIIF Oil Mills Group (for margarine).

In the cheese category, as of the year ended December 31, 2020, the Magnolia brand has a 22.8% market share, competing with Mondelez International, Inc. (Eden, Cheez Whiz, and Kraft), according to The Nielsen Company (Copyright © 2020, The Nielsen Company).

#### ***Animal Nutrition and Health***

According to The Nielsen Company (Copyright © 2019, The Nielsen Company), the Food Division is the largest producer of commercial feeds in the Philippines, with a market share of 22.8% of the commercial feeds market by value as of December 31, 2019. Competitors under the Animal Nutrition and Health segment include

major domestic producers such as United Animal Health (JBS United), Aboitiz Equity Ventures (Pilmico), and La Filipina Uy Gongco Corporation (PFMC), as well as numerous regional and local feedmills. There are also foreign feeds manufacturers, such as Charoen Pokphand Foods of Thailand and New Hope Group of China, which have established operations in the Philippines.

### *Protein*

Major competitors under the Protein segment include Bounty Fresh Foods Inc., Bounty Agro Ventures, Inc., Gama Foods Corp. and Charoen Pokphand Group. There are also occasional imports from the U.S., Canada and Brazil.

The Philippine fresh meats industry remains highly fragmented consisting mostly of backyard hog raisers. Its main competitors are Robina Farms and Foremost Farms. It also competes with several commercial-scale and numerous small-scale hog and cattle farms that supply live hogs and cattle to live buyers, who, in turn, supply hog and cattle carcasses to wet markets and supermarkets.

### *Others*

Major competitors of the flour milling business include General Mills, Inc. and RFM Corporation. Most of its competitors only produce a limited number of flour types such as hard flour for bread products and soft flour for biscuits. The milling business differentiates itself by focusing on the production of more specialized, higher quality and higher priced flours.

Local players face competition from imported flour that primarily originates from Turkey, Malaysia and Indonesia. Imported flour has increased its presence through low-cost flour offerings. In order to aggressively compete head-on, the milling business launched “fighting brands” such as *Red Dragon Nova* and *Red Dragon Vega* that match the quality and price of imported flour while maintaining a healthy margin.

### ***Intellectual Property***

Brands, trademarks, patents and other related intellectual property rights relating to the Food Division’s principal products in the Philippines and in foreign markets, including processed meats, dairy, coffee, foodservice and franchising, as well as stable-priced commodity products that have undergone additional processing, such as marinated meats and products sold through *Monterey Meatshops* and *Magnolia Chicken Stations* and other branded distribution outlets, are either registered or pending registration in the name of SMFB or its subsidiaries.

The Food Division owns various brand names, related trademarks and other intellectual property rights to prepare, package, advertise, distribute and sell its products in the Philippines. These include among others, trademarks such as *Magnolia*, *Star*, *Dari Crème*, *Purefoods*, *Purefoods Tender Juicy*, *San Mig Coffee*, *La Pacita*, *B-Meg* and *Monterey*. Registrations for the trademarks and other intellectual property rights that it uses or intends to use upon expiry of their respective terms are regularly renewed. Maintenance and protection of these brands and related intellectual property rights are important to ensuring distinctive corporate and market identities.

The Food Division is responsible for defending against any infringements on its brands or other proprietary rights. It monitors products in the market that may mislead consumers as to the origin of such products and attempt to ride on the goodwill of the Food Division’s brands and other proprietary rights. It retains independent external counsels to alert it of any such attempts and enjoins third parties from the use of colorable imitations of its brands and/or marked similarities in general appearance of packaging of products, which may constitute trademark infringement and/or unfair competition. To monitor the publication for opposition of new trademark applications that may be confusingly similar to the Food Division’s registered trademarks, it regularly coordinates with independent counsels and subscribes to an online trademark watch service.

### ***Quality Control, Health, Safety and Environmental Matters***

The Food Division conforms to statutory and regulatory requirements in relation to quality assurance and food safety. GMP is observed across all food businesses, based on international hygiene standards, to ensure high

quality and safe food products.

The Food Division is subject to a number of laws and regulations relating to the protection of the environment and human health and safety, including those governing food safety, air emissions, water and wastewater discharges, and odour emissions and the management and disposal of hazardous materials.

Quality and food safety standards are applied uniformly across all production facilities, whether company-owned or contracted, through training provided to third-party operators before they commence operations. Food Division representatives oversee toll plant operations on a regular basis, providing technical support and working closely with the management of third-party operators. Moreover, Food Division quality assurance personnel conduct periodic operational audits of all production facilities. The Food Division has defined quality assurance and food safety policies and guidelines which are cascaded to the tolling partners to serve as their technical references for the food safety programs managed and implemented across company owned and tolled facilities. To ensure compliance with Food Quality and Food Safety Management systems, trained quality and food safety auditors conduct assessments based on a defined frequency set by the regulatory and quality systems certifying body.

Risk of contamination of products is minimized through strict sanitation procedures and constant monitoring and response. In compliance with the HACCP standards, the Food Division has identified specific stages of processing where preventative measures are undertaken, such as equipment sterilization, hygiene, temperature control and regular equipment testing. The Food Division adheres to a set of systems including proper product storage and handling practices and uses of appropriate facilities and equipment to ensure quality and freshness of products from receipt of raw materials to dispatch of finished goods.

The Food Division is committed to the highest level of food safety standards. Its Quality Assurance and Food Safety Management System Guidelines is anchored on HACCP, GMP, ISO: 22000, ISO: 9001 and FSSC: 22000 with the objective of complying with the Food Safety Act of the Philippines (Republic Act No. 10611) and the requirements of its customers.

As of the date of this Prospectus, the Food Division believes that it is in material compliance with all applicable health, safety and environmental laws.

### ***Customers***

SMFB has a broad market base that includes supermarkets, hypermarkets, grocery stores, cooperative stores, sari-sari stores, convenience stores, warehouse clubs, mini-marts, market stalls, wet market vendors/dealers and commissaries, wholesalers/distributors, commercial farms, animal raisers, buyers of live birds and institutional accounts (*i.e.*, bars, restaurants, hotels, beer gardens, fast food outlets, burger and pizza chains, bakeshops/bakeries, kiosks, snack/biscuit manufacturers, noodle manufacturers, membership clubs, school/office canteens and franchise holders). SMFB sells its products principally in the Philippines and Asia through the businesses' respective sales force, and through strategically located partners/distributors/dealers.

SMFB, taken as a whole, is not dependent on a single customer or a few customers, the loss of any or more of which would have a material adverse effect on operations. This allows flexibility in managing the SMFB's sales activities.

### **PACKAGING BUSINESS**

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. The Packaging Group is comprised of SMYPC, and SMYPIL and their respective subsidiaries, both are joint venture companies between SMC and NYG, one of the largest glass and plastic packaging corporations in Japan; SYFMC, the only manufacturer of glass and plastics molds in the country, CAI, a pioneer in the production of two-piece aluminum cans, Mincorr, a paper corrugated carton manufacturer and Wine Brothers Philippines Corp., involved in the sale and distribution of wine products.

The Packaging Group has 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. The Packaging Group also provides services such as beverage filling in aluminum cans, PET and glass bottles, pallet leasing and logistics services. The Packaging Group is the major

source of packaging requirements of the other businesses of SMC. It also supplies packaging products to customers in the Asia-Pacific region, U.S., and Australasia, as well as to major multinational corporations across the Philippines, including Coca Cola Beverages Philippines, Inc., Nestle Philippines 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 owns 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. The subsidiaries of SMYPIL are the Packaging Group's international facilities.

For each of the years ended December 31, 2018, 2019 and 2020, the Packaging Group had sales of ₱37,325 million, ₱37,874 million and ₱ 31,504 million; gross profit of ₱9,776 million, ₱10,760 million and ₱7,942 million; and net income (loss) before tax of ₱3,107 million, ₱1,480 million and ₱(1,371) million, respectively.

Selected operating data for the Packaging business is provided below for the periods indicated:

|                                                          | For the years ended<br>December 31, |        |         |
|----------------------------------------------------------|-------------------------------------|--------|---------|
|                                                          | 2018                                | 2019   | 2020    |
|                                                          | (in millions, except percentages)   |        |         |
|                                                          | ₱                                   | ₱      | ₱       |
| Sales .....                                              | 37,325                              | 37,874 | 31,504  |
| Gross profit .....                                       | 9,776                               | 10,760 | 7,942   |
| Gross profit margin <sup>(1)</sup> .....                 | 26%                                 | 28%    | 25%     |
| EBITDA <sup>(2)</sup> .....                              | 5,609                               | 5,824  | 3,488   |
| EBITDA margin <sup>(3)</sup> .....                       | 15%                                 | 15%    | 11%     |
| Net income (loss) before tax .....                       | 3,107                               | 1,480  | (1,371) |
| Net income (loss) before tax margin <sup>(4)</sup> ..... | 8.0%                                | 4.0%   | (4%)    |

Notes:

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

## Strengths & Strategies

### Strengths

The Packaging Group believes that its competitive strengths include the following:

#### Market leader

The Packaging Group is a market leader in all its product formats in the domestic packaging industry, offering total packaging solutions to clients by providing glass, plastics, metal closures, aluminum cans, PET packaging, flexibles and paper as well as beverage filling for aluminum cans, PET and glass bottles, and logistics services.

The usage growth rate for glass containers (which is the largest business of the Packaging Group) for beverage applications has been steadily growing. Glass bottles for beverages accounts for the largest share among the glass packaging format. Most of these are available in traditional mom and pop stores where carbonated soft

drinks, energy drinks and ready-to-drink juices come in returnable glass bottles. Glass packaging also recorded growth in other categories such as food packaging, pharmaceutical, home care, beauty and personal care because of its ability to portray a premium image while maintaining product quality. Although the growth of glass containers may be tempered by the increasing popularity of lightweight, unbreakable and more affordable packaging types such as PET, the glass packaging industry will likely benefit from creation of a free trade area amongst ASEAN nations. Among the likely positive impact of the free trade area will be the ability for local glass manufacturers, such as the Packaging Group, to further expand their business in the ASEAN economies.

### ***State-of-the-art manufacturing facilities***

The Packaging Group maintains state-of-the-art manufacturing facilities and best practices in manufacturing and quality procedures.

The Packaging Group has large available capacities and ready know-how to exploit prospects in this packaging format.

### ***Compliance with global standards***

The Packaging Group complies with global standards, recognized by key multinational and domestic customers, for Food Safety (FSSC 22000), Quality Management (ISO 9001), Environment Management (ISO 14000), various social accountability standards and other relevant standards. The Packaging Group maintains its presence to relevant organization to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

### ***Synergies from partnerships with key global packaging companies***

The Packaging Group gains synergies from its partnerships with global packaging players such as NYG (Japan), Fuso Machine & Mold Mfg. Co. Ltd. (Japan), and CANPACK S.A. (Poland).

## **Strategies**

The strategies of the Packaging Group include the following:

### ***Total Packaging Solutions***

The Packaging Group intends to increase adoption of the total packaging solutions approach by proactively offering solutions that range from traditional packaging products to associated graphics design, conceptualization, consultancy, toll filling, trading and logistical requirements. The Packaging Group also has put up a can filling facility to provide tolling services to the current non-alcoholic beverage customers. 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. These acquisitions strengthened the Packaging Group'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.

### ***Network and Client Optimization***

The Packaging Group intends to optimize and leverage on its significant regional network of facilities and alliances as a gateway to enter into new markets. It is also evaluating opportunities with its international clientele on potentially providing packaging services to them in markets where these customers have a presence and are new to the Packaging Group. There is also a focus on entering into longer term contracts with key customers to enhance earnings visibility.

### ***Product Diversification***

The Packaging Group continuously innovates to enter new markets and market segments with new products such as slim cans and ends, down gauged crowns, lug caps, high-impact resistance pallets for cements, agricultural flooring, laminated paper, logistics services and wine closures (cork). In 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. In 2018, SMYA

diversified its product portfolio through the acquisition of JMP Holding Pty Ltd, a supplier of retail and online packaging, cargo protection and materials handling.

### ***Marketing Environmentally Friendly Products***

The Packaging Group expects the future consumer trend towards environmentally friendly products and sound manufacturing systems. Hence, the Packaging Group is continuously developing eco-friendly processes such as the use of cullets in glass production, use of plastic regrinds in plastic crates and pallets, toluene-free flexible packaging and accreditation with various international standards and agencies. In recent years, the Packaging Group has been improving and upgrading its manufacturing facilities to a standard higher than established government regulations. Significant investments have been made, such as the Electrostatic Precipitator of the Packaging Group, a pollution-abating device that cost more than ₱100 million.

### **Packaging Solutions**

#### ***Glass***

The glass business is the Packaging Group's largest business segment. It has three glass manufacturing facilities, and one glass and plastics mold plant in the Philippines serving the requirements of the beverage, food, pharmaceutical, chemical, personal care and health care industries. The Packaging Group believes that SMY Glass Plant is the country's most technologically advanced glass manufacturing facility and the largest glass manufacturing facility in the Philippines.

#### ***Metal***

The metal business is the second largest business in the Packaging Group. It 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. The Packaging Group's CAI is the pioneering two-piece aluminum can plant in the Philippines for the beverage market. SMYPC formed CAI, a joint venture with CANPACK S.A., for the modernization of the two-piece aluminum can manufacturing business. Utilizing the know-how and technologies of CANPACK Group on can manufacturing, CAI is now capable of producing 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, the Asia-Pacific region and in North America, the business has expanded its product line to offer 180 ml and 355 ml aluminum cans. To-date, CAI is capable of producing six can sizes.

#### ***Composites/Flexible Packaging***

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. Through the Rightpak plant and Malaysian plants, the Packaging Group manufactures flexible packaging for the food, beverage, personal care, chemical and healthcare industries. It also provides composite materials for a varied range of industries including construction, semiconductor and electronics.

#### ***Plastics***

The plastics business produces plastic crates and pallets, plastic poultry flooring, plastic preforms, bottles, caps and handles, food trays, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets serving companies in industries, such as food, beer and beverages, pharmaceutical, chicken and agriculture, as well as petroleum and chemical.

#### ***Paper***

The paper business produces corrugated cartons and partition boxes. Through Mincorr, a wholly-owned subsidiary of SMC based in Davao, the Packaging Group supplies the carton packaging needs of a broad range of manufacturing and agricultural industries.

#### ***Toll Filling***

Adding to the existing capacity to fill beverages in PET bottles, the beverage filling facility grew its capability to fill aluminum cans for non-alcoholic beverages and glass bottles for alcoholic beverages. The business also utilizes retort technology, which enables the business to toll fill milk-based, coffee, tea and soy-based beverages in aluminum cans.

### ***Logistics Services***

The Logistics Services started its operations by offering pallets under lease agreements to food, beverage and storage facilities. It expanded its operations to include trucking services and warehouse management, primarily serving the Packaging Group's internal requirements and some of the SMC's trucking needs.

### **Production Facilities**

The Packaging Group owns and operates three glass plants, one glass and plastics mold plant, four metal packaging plants, two plastics packaging plants, one beverage filling plant, one composite plant, and one paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 20 overseas packaging facilities located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, and woven bags), Australia (glass, trading, wine closures, wine filling facilities, retail/online packaging, cargo protection and materials handling) and New Zealand (trading and plastics).

### **Competition**

The Packaging Group believes that it remains to be the leading packaging player in the Philippines. It continues to enjoy majority share of market in the glass, aluminum cans, metal closures, and the plastics segments mainly brought about by the strong performance of the beverage industry.

The influx of imports in flexibles, aluminum cans and glass from China is viewed as competition to the Packaging Group, which believes that providing total packaging solutions coupled with excellent customer service has been its core strength over its competition. Furthermore, SMYPC has been improving and upgrading its manufacturing facilities, as well as offering innovative packaging designs to adapt to the market trends.

### **Health, Safety and Environmental Matters**

The Packaging Group complies with the relevant global standards on Environmental, Occupational Health and Safety in all its facilities. It also maintains its presence to relevant organizations to keep abreast with the current manufacturing standards and ensure statutory and regulatory compliance.

### **FUEL AND OIL BUSINESS**

SMC operates its fuel and oil business through Petron Corporation. As of December 31, 2020, SMC directly and indirectly owned 68.26 % of Petron. Petron is the largest oil refining and marketing company in the Philippines and is a leading player in the Malaysian market. Petron has a combined refining capacity of 268,000 barrels per day and is engaged in refining crude oil and marketing and distributing refined petroleum products in the Philippines and Malaysia.

In the Philippines, Petron operates the Limay Refinery in Bataan, which supplies approximately 30% of the country's total fuel requirements and has a production capacity of 180,000 barrels per day. Based on estimates using its internal assumptions and calculations and industry data from the DOE for the year 2019, Petron believes that its overall market share in the Philippine oil market in terms of sales volume, was approximately 26.5% as of December 31, 2020. This estimate excludes direct imports of jet fuel by airlines, direct imports of naphtha as feedstock for petrochemical plants, direct imports of condensate as fuel for natural gas power plants, and lubes and greases.

The Limay Refinery processes crude oil into a range of petroleum products, including gasoline, diesel, LPG, jet fuel, kerosene, naphtha, and petrochemical feedstock such as benzene, toluene, mixed xylene and propylene. The completion of phase 2 of the Refinery Master Plan ("RMP-2"), a U.S.\$2 billion project for the Limay Refinery, enabled Petron to produce diesel, gasoline, jet fuel, kerosene and LPG (collectively, "**White Products**"), which have higher margins. The completion of RMP-2 also increased Petron's production of petrochemicals and made Petron the first oil company in the Philippines capable of producing Euro IV-standard

fuels.

From the Limay Refinery, Petron moves its products, mainly by sea, to terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, eight in the Visayas and eight in Mindanao, as well as two airport installations in Luzon and two in Mindanao. Through this nationwide network, Petron supplies its various petroleum products such as gasoline, diesel, and LPG to its customers. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

Through its network of more than 2,400 retail service stations in the Philippines as of December 31, 2020, representing approximately 25.0% of the country's total service station count, Petron sells gasoline, diesel, and kerosene to motorists and to the public transport sector. Approximately 34% of service stations are company-owned-dealer-operated service stations (“**CODOs**”) and 66% are dealer-owned-dealer-operated service stations (“**DODOs**”).

As of December 31, 2020, Petron's LPG distribution network includes more than 1,100 branch stores and more than 1,900 service stations where Petron sell its LPG brands *Petron Gasul* and *Fiesta Gas* to households and other consumers. Meanwhile, Petron's Lubes distribution network includes 41 car care centres, 112 auto/motorcycle care shops, and more than 1,900 service stations selling lubes.

Petron entered the Malaysian market in March 2012 through the purchase of ExxonMobil's downstream oil business in Malaysia. As of June 30, 2020, Petron ranked third in the Malaysian retail market with more than 21%, a percentage market share based on estimates using its internal assumptions and calculations and industry data from The Concilium Group Sdn Bhd, a market research consultant appointed by Malaysian retail market participants to compile industry data. Petron also covers the industrial segment in Malaysia, selling diesel and gasoline to unbranded mini-stations and power plants, as well as to manufacturing, plantation, transportation and construction sectors. Petron owns and operates the Port Dickson Refinery in Malaysia, which has a crude oil distillation capacity of 88,000 barrels per day, and produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and low-sulfur waxy residue (“**LSWR**”). As of December 31, 2020, Petron had 10 product terminals, a network of approximately 700 retail service stations and about 300 convenience stores in Malaysia under the Treats brand. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to KLIA. The joint venture through which Petron owns its interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

Petron Malaysia also operates a palm oil methyl ester (“**PME**”) plant. It acquired the Lumut PME Plant in Perak in 2019 with a rated capacity to process 60,000 MT per annum of refined bleached deodorized palm oil (RBDPO). The plant produces PME, and crude and refined glycerine (CG and RG).

Petron's products are primarily sold to customers in the Philippines and Malaysia. Petron also exports various petroleum products and petrochemical feedstock, including LSWR, naphtha, mixed xylene, benzene, toluene and propylene, to other customers in the Asia-Pacific region. Petron's revenues from these export sales amounted to ₱15,500 million or 5% of total sales, as of December 31, 2020.

In 2018, 2019 and 2020, Petron's sales were ₱557,386 million, ₱514,362 million and ₱286,033 million, respectively, and net income (loss) was ₱7,069 million, ₱2,303 million and ₱(11,413) million, respectively.

Petron's common shares are listed for trading on the PSE under the symbol “PCOR”, while its Series 2 preferred shares are listed and traded on the same exchange under the symbols “PRF2B”, “PRF3A”, “PRF3B”. As of December 29, 2020, Petron had a market capitalization of ₱37,407 million with a common share price of ₱3.99.

In Malaysia, Petron's common shares for its subsidiary Petron Malaysia Refining & Marketing Bhd. are listed for trading on the Bursa Malaysia under the symbol “PETRONM.”

Selected financial data for the business of Petron are set forth in the table below for the periods indicated:



|                                                             | For the years ended<br>December 31, |         |          |
|-------------------------------------------------------------|-------------------------------------|---------|----------|
|                                                             | 2018                                | 2019    | 2020     |
|                                                             | (in millions, except percentages)   |         |          |
|                                                             | ₱                                   | ₱       | ₱        |
| Sales.....                                                  | 557,386                             | 514,362 | 286,033  |
| Gross profit.....                                           | 34,562                              | 30,507  | 8,713    |
| Gross profit margin <sup>(1)</sup> .....                    | 6.2%                                | 5.9%    | 3.0%     |
| EBITDA <sup>(2)</sup> .....                                 | 31,803                              | 29,902  | 4,260    |
| EBITDA margin <sup>(3)</sup> .....                          | 5.7%                                | 5.8%    | 1.5%     |
| Net income (loss) before tax.....                           | 10,455                              | 3,737   | (16,211) |
| Net income (loss) before tax<br>margin <sup>(4)</sup> ..... | 1.9%                                | 0.7%    | (5.7%)   |

*Notes:*

(1) Calculated as gross profit divided by revenues.

(2) EBITDA is calculated as net income before: income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), depreciation and amortization and impairment losses.

(3) Calculated as EBITDA divided by revenues.

(4) Calculated as net income before income tax divided by revenues.

Petron's revenues from foreign sales amounted to ₱119,213 million or 42% of total revenues for the year ended December 31, 2020.

## **Strengths and Strategies**

### **Strengths**

Petron believes that its principal competitive strengths include the following:

#### ***Market leadership in the Philippine downstream oil sector***

With an overall market share of approximately 24.0% of the Philippine oil market in the first half of 2020 in terms of sales volume based on Petron estimates using its internal assumptions and calculations and industry data from the DOE, Petron believes it is the leader in the Philippine oil industry, ahead of the other two major oil companies and other smaller players operating in the Philippines.

Petron has more than 2,400 retail service stations in the country as of December 31, 2020 representing approximately 24% of the country's total service station count, retailing gasoline, diesel, and kerosene to motorists and the public transport sector. Its wide range of world-class fuels includes Blaze 100 Euro 6, XCS, Xtra Advance, Turbo Diesel and Diesel Max. Petron also sells its LPG brands, Gasul and Fiesta Gas, to households and other consumers through its extensive dealership network, numbering approximately 1,117 branch stores as of December 31, 2020. Petron also manufactures lubricants and greases through its blending plant in Manila and sells these products through its service stations and various lubes outlets.

Petron's service station count has grown from approximately 2,283 as of December 31, 2016 to about 2,435 as of December 31, 2020.

In particular, Petron believes that it is the market leader based on domestic sales volume in the retail trade as well as in the industrial and LPG market segments.

#### ***Logistically advantaged supply position in the Philippines***

In the Philippines, Petron transports its products from the Petron Bataan Refinery to fuel import terminal facilities and airport installations situated throughout the Philippines. Since the closure of the only other operating petroleum refinery in the second half of 2020, the Petron Bataan Refinery remains as the only petroleum refinery in the country. The Petron Bataan Refinery has a total crude oil distillation capacity of 180,000 barrels per day.

Petron's extensive logistics network includes 36 terminals and sales offices and 12 airport installations and reaches most key points in the Philippines. Given the challenges of distribution across the Philippine archipelago, this capability plays a significant role in securing Petron's leading position in the Philippines. From Bataan, products are moved mainly by sea to terminals located across the archipelago. Through its robust distribution network, Petron fuels strategic industries such as power generation, manufacturing, mining, agribusiness, among others. Petron also supplies jet fuel to international and domestic carriers at key airports in the Philippines.

The President of the Philippines recently signed the Corporate Recovery and Tax Incentives for Enterprises Act (Republic Act No. 11534) ("CREATE Act") into law last March 26, 2021. As part of the CREATE Act, local petroleum refineries shall be exempted from paying taxes and duties upon crude importation, but will be subject to applicable taxes and duties on finished petroleum products upon lifting of refined petroleum products from the refinery. Petron believes that the CREATE Act allows it to be more competitive, as domestic petroleum refineries are now taxed on finished products, similar to importers of refined fuel, which only pay after sales tax.

### ***Operations in markets with favorable industry dynamics***

Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which Petron believes have favorable oil industry dynamics. The Economic Intelligence Unit ("EIU") projects GDP growth of 7.3% for the Philippines in 2021, 6.2% in 2022 and 6.8% in 2023, which provides a favorable economic environment to support energy and petroleum products demand growth in the country. The Philippines has one of the lowest per capita car ownership in the region and, consequently, at 1.6 bbl and 0.6 bbl per capita in 2019 and the first half of 2020, respectively, one of the lowest fuel consumptions in the region, which Petron believes presents potential room for growth that Philippines fuel retailers can capitalize upon.

For Malaysia, the EIU projects GDP growth of 4.4% in 2021, 3.8% in 2022 and 4.6% in 2023. Malaysia has a significantly higher per capita car ownership than the Philippines and had per capita fuel consumption of 6.9 bbl in 2018.

The Philippines operates under a free market scheme with movements in regional prices and foreign exchange reflected in the pump prices on a weekly basis. Malaysia, on the other hand, operates under a regulated environment and implements an APM that provides stable returns to fuel retailers.

### ***Expanded product offering driving non-fuel retail volumes***

Petron's network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond being just a petroleum station, Petron's service station provides a one-stop service experience to travelers on the road, offering amenities such as *Treats* convenience stores, restaurants, and specialty shops. These convenience stores, restaurants and specialty shops help generate non-fuel revenues and improve traffic in the service stations.

Currently, SMC is also utilizing selected Petron *Treats* convenience stores for the Company's new online ordering system. Customers may simply order San Miguel products through the website and pick them up at the selected service stations.

In Malaysia, Petron's retail business markets fuel, LPG and Lubes through a dealer network comprising more than 720 retail service stations located throughout Peninsular and East Malaysia as of December 31, 2020. Petron has approximately 300 *Treats* convenience stores, generating non-fuel income and improving traffic in the service stations.

Since 2013, Petron has partnered with the Royal Malaysia Police to set up Go-To Safety Points ("GTSPs") at selected Petron stations in Malaysia. The GTSPs are set up at strategically located service stations to allow the public to seek temporary shelter, increasing safety and security awareness among Petron customers. Motorists can enjoy Petron products and services in a safer and more secure environment.

### ***Capitalizing on the loyalty card program in the Philippines and successful rollout of the Petron App***

Petron also offers loyalty programs that complement its retail business, such as the Petron Value Card in the Philippines and the Petron Miles Privilege Card ("PMILES") in Malaysia. Petron continues to upgrade existing

loyalty programs and offer new and diverse programs to cater to the unique needs of customers. Some of the benefits of the Petron Value Card program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage. PMILES is a loyalty card aimed at ensuring customers enjoy better value, privileges and benefits. PMILES goes beyond fuel, as customers are able to use promocodes and achieve rewards and discounts across a wide range of products and services. Some of Petron's partner merchants include BookDoc, Bungkusit, Bawiq, Zalora, The Kuala Lumpur Journal, Escape Parks and AXA, among others.

As of December 31, 2020, approximately 5.6 million Petron Value Cards (including Petron Super Driver Cards) have been issued in the Philippines and approximately 11 million PMILES have been issued in Malaysia.

In 2016, Petron launched the Petron mobile application (the “**Petron App**”) as a companion for the everyday Filipino motorist. In addition to monitoring Petron loyalty card points earned from transactions at Petron stations, the Petron App also allows customers to track details of fuel spend, locate Petron service stations and car care centers and stay updated on the latest Petron news and promotions. The Petron App also sends customers reminders of the details of services that are available to Petron loyalty cardholders, such as free towing & roadside assistance and personal accident insurance.

With the extensive network of its loyalty card program and the Petron App, Petron believes it has been able to foster brand loyalty to strengthen its position in both markets in the Philippines and Malaysia. Furthermore, Petron has made informed marketing decisions to cater to the needs of its customers.

Using transactional data, post-campaign analyses were conducted to categorize cardholders into segments based on their purchase behaviors to launch strategic promotional activities, product offerings, and targeted loyalty programs with the objective of increasing throughput, up-selling higher value products, and reactivating dormant accounts.

Historical carded volume is used in projecting baseline numbers to implement customer programs, forecast incremental sales and gain insights on actual campaign results.

#### ***Focus on higher yield products at the integrated Petron Bataan Refinery***

Over the years, Petron has developed and maintained a strong core base of petroleum products and has managed to consistently make significant investments in upgrading its facilities. Petron has also focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products. In the Philippines, the investment in RMP-2 allowed Petron to produce Euro IV-standard fuels and convert black products into white products.

Petron is also currently constructing a new powerplant to replace some of its old generators and generate incremental power and steam. With the new powerplant, products previously used as Refinery fuel will be converted to high-value products. It is expected to be completed by 2nd half of 2022. In addition, Petron invested in the expansion of its polypropylene plant to capitalize on petrochemical margins. The expansion at the plant is expected to be completed by end 2021 and will increase its production capacity from 160,000 MT to 225,000 MT annually.

#### ***Established position in the Malaysian downstream oil sector***

Petron has acquired an established position in the Malaysian downstream oil sector that provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

Petron's network of service stations and distribution infrastructure in Malaysia facilitate the capture of a growing share of the market. It includes more than 720 service stations, approximately 300 convenience stores, and 10 product terminals as of December 31, 2020. Petron also has a presence in the aviation segment with a 20% ownership of a multi-product pipeline (“**MPP**”) to KLIA. The joint venture through which the Company owns its interest in the MPP also owns a fuel terminal, the Klang Valley Distribution Terminal (“**KVDT**”).

Petron's fuel supply in Malaysia comes from its Port Dickson Refinery and domestic and import purchases. The Port Dickson Refinery processes crude oil acquired from various sources. Petron is about to complete the construction of its Diesel Hydrotreater, which will allow it to comply with the Euro 5 specification for diesel (10 ppm sulfur) mandated by the Malaysian government by April 2021. Furthermore, the construction of two

additional product tanks and jetty facilities is almost complete and is expected to generate savings on freight costs.

The Malaysian government regulates the pricing structure through the APM, pursuant to which it mandates (i) the prices of certain refined petroleum products, (ii) quotas, and (iii) certain fixed amounts for marketing, transportation and distribution costs in relation to the subsidy structure. Effective March 30, 2017, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 and RON 97 petroleum and diesel on a weekly basis based on the Mean of Platts Singapore. If government-mandated prices are lower than the fuel products' total built-up cost per the APM, then Petron will receive subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the fuel products' total built-up cost per the APM, then Petron will pay duties to the Malaysian government. This regulated environment provides stability to Petron's Malaysian operations in such sectors.

### ***Experienced management team and employees and strong principal shareholder in San Miguel Corporation***

Petron has an experienced team of managers with substantial relevant experience in refining operations and development of service stations. In addition, Petron has a team of employees skilled in managing the various aspects of its business, including a highly experienced management team at the Petron Bataan Refinery, a focused sales and marketing team, which includes a group that has years of experience in service station engineering and construction, and a research and development team that has overseen years of product development and production process improvement. Petron is also committed to the development of its employees by adopting on-going training and development programs to ensure that operations will be run by well-equipped and capable employees. The average tenure of employees in the company is approximately 9.56 years for the Philippines and 9 years for Malaysia.

SMC, directly and indirectly, holds an effective 68.26% of Petron's outstanding common equity. SMC is among the largest and most diversified Philippine conglomerates, which has market-leading businesses in various sectors, including beverages, food, packaging, fuel and oil, energy, infrastructure and property, and investments in car distributorship and banking services.

Petron believes that it benefits from its relationship as a key material subsidiary of SMC, primarily by realizing synergies, including the provision of fuels for SMC's expanding power generation business, SMC's infrastructure business and its various production facilities as well as cross-marketing opportunities with SMC's consumer and energy-related businesses. Petron also believes that SMC's strong balance sheet and international reach and relationships increase its leverage and bargaining power with suppliers and financial institutions as well as enhance its sources of funding for its capital expenditure projects.

## **STRATEGIES**

Petron's principal strategies are set out below:

### ***Maximize volume growth and further increase market share in the downstream oil markets in the Philippines and Malaysia***

Petron intends to leverage on its leading market position and extensive retail and distribution network in the Philippines to maximize its revenue and margin potential.

Petron believes that the downstream oil market in the Philippines and Malaysia are still underserved and have strong potential for growth. To capture this growth and further strengthen its market position, Petron will embark on: (i) offering competitive prices to boost volumes amidst a highly competitive market; (ii) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (iii) improving productivity of existing service station network; (iv) introducing new products with differentiated and superior qualities; (v) expanding lubes distribution network by putting up more sales channels such as new lubes outlets, sales centers and car care centers, and penetrating non-traditional outlets such as auto parts and repair shops; (vi) continuing to expand its non-fuel businesses by leasing additional service station spaces to food chains, coffee shops and other consumer services or franchising those establishments to provide "value conscious" customers with a one-stop full-service experience; and (vii) intensifying its dealer and sales personnel training to further improve customer service experience.

These initiatives will support the Petron's growing retail business and continuing service station network expansion.

#### ***Innovation as tool for customer retention and growth***

Petron intends to continue to invest in its digital offerings such as the Petron App to provide value-added services to its customers and increase interaction by cross-selling into non-fuel retail offerings, tie-ups with other merchants and insurance products, among others. In addition, contactless payment solutions through Pay Maya and GCash are now offered to almost 900 service stations nationwide. Petron's market leadership and customer brand awareness, coupled with digital offerings such as online orders and pick-ups at service stations nationwide, will serve to increase customer frequency and, in turn, increase fuel sales as well as non-fuel sales.

Petron will continue to position itself as a premium brand with premium fuel and lubricants offerings in addition to other related products. Petron seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers, providing differentiated service offerings in its retail service stations and by promoting enhanced loyalty programs in both countries.

The Philippines is currently developing its strategy towards the adoption of electric vehicles and hydrogen as alternatives fuel. Petron is at the forefront in assessing these emerging trends.

#### ***Maximize production of high margin refined petroleum products and petrochemicals***

Over the years, Petron has made significant investments in upgrading its facilities and is focused on increasing production of White Products and petrochemicals while minimizing production of low margin fuel products. In recent years, it has shifted production from lower margin fuel oils to higher margin products, including petrochemical feedstock such as propylene, mixed xylene, toluene and benzene.

Going forward, Petron expects to continue investing in upgrading its production capability with a focus on high-margin petroleum products and petrochemicals.

#### ***Ensure reliability and efficiency of refinery operations***

Petron has undertaken a number of strategic projects such as improving operational efficiency and profitability at the refinery, and increasing market reach through the expansion of the company's service station network.

Petron also intends to further enhance efficiency and reduce production costs through supply chain improvements and enhancements to its existing facilities through a range of initiatives including: (i) enhancing its crude optimization program (a program which determines the crude mix that will yield the best product value at the lowest cost) and expanding its crude oil supply sources in addition to its major crude oil suppliers; (ii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iii) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness with the spot market; and (iv) reducing distribution costs through rationalization of the terminal network, joint operations with other companies and optimized utilization of its marine and tank truck fleet. Petron also expects to continue utilizing operational synergies by leveraging on SMC's network, products and services.

#### ***Continue to evaluate possible selective synergistic acquisitions***

In addition to organic growth, Petron will continue to consider and evaluate selective opportunities to expand both within and outside the Philippines through strategic acquisitions that will create operational synergies and add value to the existing business.

### **Production Facilities**

#### ***The Philippines***

In the Philippines, Petron owns a petroleum refinery complex located in Limay, Bataan. The Limay Refinery has a crude oil distillation capacity of 180,000 barrels per day. It has its own piers and offshore berthing facilities, one of which can accommodate very large crude oil carriers ("VLCCs").

The Limay Refinery is capable of producing a range of petroleum products such as LPG, naphtha, gasoline, kerosene, jet fuel, and diesel. In 2000, the Limay Refinery commenced petrochemical production with the commercial operation of its mixed-xylene plant, designed to produce 232,000 tons per year of mixed xylene. The Limay Refinery has a propylene recovery unit, which has a demonstrated capacity of 148,000 tons per year of polymer-grade propylene and a benzene-toluene extraction unit, designed to produce benzene and toluene at respective capacities of 24,000 and 158,000 tons per year. In early 2011, Philippine Propylene Inc. (“PPI”) commissioned a rehabilitated polypropylene plant in Mariveles, Bataan, to capture the incremental margin from converting the Limay Refinery’s propylene production into polypropylene. The facility has the capacity to produce 160,000 metric tons of polypropylene resin annually. In July 2014, Petron acquired the polypropylene business of PPI to enhance efficiency. As a result of the acquisition, the operation of the polypropylene plant was integrated into the Limay Refinery’s propylene production operation which expanded in 2015 with the commissioning of the second propylene recovery unit, increasing propylene production capacity to 415,000 tons per year. In December 2016, Petron acquired the cogeneration powerplant from SMC Powergen, Inc., which consists of four turbo generators and four fuel-fired boilers. This ensures the sufficient and reliable supply of steam, power and other utilities necessary for the continuous and stable operation of the Limay Refinery.

Petron completed a fuel additives blending plant in the Subic Bay Freeport Zone in July 2008 with a capacity of 12,000 metric tonnes per year, which serves the fuel additive requirements of Innospec, Limited’s (“Innospec’s”) customers in the Asia-Pacific region. Petron is Innospec’s exclusive blender in the Asia-Pacific region.

### ***Production Facilities - Malaysia***

In Malaysia, Petron owns a petroleum refinery located in Port Dickson, Negeri Sembilan. The Port Dickson Refinery has a crude oil distillation capacity of 88,000 barrels per day.

The Port Dickson Refinery produces a range of petroleum products, including LPG, naphtha, gasoline, jet fuel, diesel and LSWR. With the exception of naphtha and LSWR, these products are intended to meet domestic demand in Malaysia. Petron exports its naphtha and LSWR to various customers in the Asia-Pacific region under term and spot contracts.

Crude oil for the Port Dickson Refinery is received by means of an SBM and crude pipeline facilities that are jointly owned with Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) through an unincorporated joint venture. Under the joint venture, Petron shares 50% of all SBM operating and capital costs and also pays a levy of one-third of the overhead and administrative charges incurred in connection with the operation of the SBM.

### **Refining Process and Quality Improvement Initiatives**

#### ***The Limay Refinery***

The Limay Refinery has been continuously implementing various programs and initiatives to achieve key performance indices on reliability, processing efficiency, energy efficiency, safety and environment.

In 2009, the Limay Refinery achieved its Integrated Management System (“IMS”) certification issued by TÜV-SÜD-PSB, an internationally recognized certification and inspection body. The benefits of an IMS for the Limay Refinery include: standardized and more systematized quality, environmental, health and safety work procedures, instructions and practices; improved quality, productivity, environment, health and safety performance through continual improvement and compliance with legal requirements; customer satisfaction; hazard and injury free working environment; and environmentally friendly operations. In 2019, Limay Refinery successfully passed its recertification and surveillance audit, making the refinery IMS-certified for 11 consecutive years. The IMS is an integration of three management systems: (1) Quality ISO 9001:2015; (2) Environment ISO 14001:2015; and (3) Health and Safety OHSAS 18001:2007.

#### ***The Port Dickson Refinery***

The Port Dickson Refinery utilizes Integrated Management System (“IMS”) in support of its operations. Embedded within the IMS are the Petron Operation Integrity Management System (“POIMS”), Control Management System (“CMS”), and Product Quality Management System (“PQMS”). In addition, the Port Dickson Refinery also practices the Loss Prevention System (“LPS”), the Reliability Management System

(“RMS”) and plant optimization initiatives for improved plant efficiency.

The Port Dickson Refinery adopted the IMS in 2019 to align all existing processes under one management system. The POIMS provides a structured approach to the management of risk related safety, security, health, environment (SSHE) and operation integrity to comply with local regulations and laws. CMS provides a process for ensuring Corporate Policies and In-Line Controls are implemented and effectively sustained over time. PQMS provides a work process to ensure high-quality products delivered to customers. The Port Dickson Refinery was awarded with the certification on December 24, 2019.

The Port Dickson Refinery will participate when the audit resumes, which is expected by the end of August 2020.

To increase plant reliability, the Port Dickson Refinery adopted the RMS, which utilizes a risk-based equipment strategy and aims to improve mechanical efficiency through routine work planning, scheduling and execution.

The Port Dickson Refinery continuously seeks improvement in the areas of process optimization, and energy conservation, through the use of advanced process computer control and an integrated plant information system.

## **Raw Materials**

### ***Philippine Operations***

The main raw material used in the Limay Refinery’s production process is crude oil. Petron acquires crude oil for the Limay Refinery from foreign sources, through a combination of term purchase contracts and spot market purchases. Petron has a term contract with Saudi Arabian Oil Company (“**Saudi Aramco**”) entered into in 2008 to purchase various Saudi Arabian crude. The pricing and payment mechanisms under this contract are consistent with Saudi Aramco’s standard practice for its Far East customers. Pricing is determined through a formula that is linked to international industry benchmarks, and payment is on an open account basis secured by an irrevocable standby letter of credit. The contract is automatically renewed annually unless either Petron or Saudi Aramco elects to terminate the contract upon at least 60 days’ written notice prior to its expiration date. As of December 31, 2020, neither Petron nor Saudi Aramco have terminated the contract.

Petron also has a term contract with Kuwait Petroleum Corporation (“**KPC**”) to purchase Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to mutual agreement of the parties. As of December 31, 2020, neither Petron nor KPC had terminated the contract. Several other crude oils are purchased on a spot basis from various suppliers.

The Limay Refinery is capable of processing various types of crude oil. Petron’s crude oil optimization strategy includes the utilization of various types of crude oil that are not confined to light and sweet crude, which the Limay Refinery had been processing predominantly prior to RMP-2 commissioning, to provide additional value to Petron. The completion of the RMP-2 has given the Limay Refinery greater flexibility to use heavier, more sour alternative crude.

Petron entered into a contract for the 2020 term supply of group I baseoils (SN500, BS150) with Shell International Eastern Trading Co.; and group II base oils (Kixx Lubo 150N J150, Kixx Lubo 600N J500 and Formosa 500N J500) with GS Caltex and Da Zhong Precision, respectively. The term contracts are renewable annually, subject to Petron’s option, and pricing is calculated using a formula based on ICIS- LOR, an international standard price benchmark for base oils. Group I and II base oils are Petron’s main feedstocks for the production of automotive, industrial and marine lubricants.

Petron also imports aviation gas, asphalt, and some gasoline blending components. These imports are necessary as Petron does not produce aviation gas and asphalt. Petron ceased producing fuel oil, a lower margin product, upon the completion of the RMP-2. Imports of LPG, diesel, gasoline and jet fuel may also be necessary during maintenance of the Limay Refinery. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline and some gasoline blending components, or Saudi Aramco contract prices (“**Saudi CP**”) for LPG.

### ***Malaysian Operations***

The main raw materials used in the Port Dickson Refinery’s production process are crude oil and condensate. Petron acquires crude oil and condensate for the Port Dickson Refinery from various sources, through a

combination of term purchase contracts and spot market purchases. Petron has a long-term supply contract for Tapis crude oil and Terangganu condensate with EMEPMI, supplemented by other short-term supply contracts and spot crude purchases. Currently, Petron purchases more than 70% of crude and condensate volume from EMEPMI, while the balance is sourced from other term and spot purchases. Pricing is determined through a formula that is linked to international industry benchmarks. Petron also utilizes Port Dickson Refinery spare capacity for third-party crude processing arrangement at a fixed fee to optimize utilization and revenue.

The Port Dickson Refinery is designed to process sweet crude oil. Petron's crude oil optimization strategy includes diversification in processing different types of local and regional sweet crude oil.

A portion of Petron's PME requirements for its bio-diesel mix are sourced from the PME plant acquired by Malaysia Refining and Marketing Bhd ("PMRMB") last March 1, 2019. The PME plant is located in Lumut, Perak and has an annual capacity of 60,000 metric tonnes. Petron buys the balance of its PME requirements from Malaysian government-approved local suppliers. PME is the bio-component of the biodiesel mix sold to domestic customers in Malaysia as a replacement for diesel. Petron produces a biodiesel mix comprising 10% PME and 90% diesel for the transportation and subsidized sector following the Malaysian Biofuel Industry Act of 2007.

Petron also imports LPG, diesel, gasoline, jet fuel and some gasoline blending components into Malaysia to support demand beyond production level. These imports are purchased through term purchase contracts and in the spot market. Pricing is usually based on Mean of Platts Singapore for diesel, gasoline, jet fuel and some gasoline blending components, or Saudi CP for LPG.

## **Utilities**

The principal utilities required for Petron's production process are water, electricity and steam.

### ***Water***

Deep wells provide the Limay Refinery's water requirements.

The Port Dickson Refinery's clean water requirements for the process units are sourced from the local municipal water source. Water for fire-fighting purposes is sourced from a lagoon located within the Port Dickson Refinery complex.

### ***Electricity and Steam***

The Limay Refinery's electricity and steam requirements are sourced from the Limay Refinery's existing turbo and steam generators as well as from its cogeneration power plant. The cogeneration power plant was acquired by Petron in December 2016 from SMC Powergen Inc., a subsidiary of SMC and an affiliate of Petron. The Port Dickson Refinery's electricity requirements are purchased from Tenaga Nasional Berhad, the Malaysian national electricity provider, while the Port Dickson Refinery's fired and waste heat boilers supply the steam requirements of the refinery's process units.

## **Sales and Marketing**

### ***The Philippines***

In the Philippines, Petron is the leading integrated oil refining and marketing company. Petron had an overall market share of 26.5% of the Philippine oil market as of December 31, 2020 in terms of sales volume based on estimates using its internal assumptions and calculations and industry data from the DOE.

### ***Retail Service Stations***

Petron had more than 2,400 retail service stations in the Philippines as of December 31, 2020, representing approximately 25.0% of the country's total service station count, according to Petron's estimates. Most of these stations are located in Luzon, where demand is heaviest.

Petron employs two types of service station operating structures in the Philippines, namely: CODO and DODO.



For CODOs, Petron buys or leases the land and owns the service station structures and equipment, but third-party dealers operate the CODOs. For DODOs, third-party dealers buy or lease the land, build service station structures according to Petron's specifications, lease the service station equipment from Petron, and operate the DODOs. As of December 31, 2020, approximately 34.0% of Petron's retail service stations in the Philippines were CODOs, and approximately 66.0% were DODOs.

In 2009, Petron launched its pioneering Petron Bulilit Stations, which are small service stations that provide the flexibility to establish a presence even in remote rural areas and make Petron's products and services accessible to more Filipinos.

To improve traffic in Petron's service stations and increase potential revenues of Petron's non-fuel business, Petron established *Treats* convenience stores and leases space to quick-serve restaurants and other consumer service shops in strategic service stations nationwide. The *Treats* convenience stores were rebranded under the brand name *San Mig Food Ave* in 2011 pursuant to an agreement with San Miguel Foods Inc. The convenience stores are operated by dealers through a franchise obtained from San Miguel Foods. In July 2019, San Miguel Foods completed rebranding of all its *San Mig Food Ave* stores to *Treats* outlets.

Petron continues to install the point of sale ("POS") system across its retail network throughout the Philippines. POS systems are used for gaining efficiencies through automating retail transactions and the proper monitoring of actual sales in service stations. As of December 31, 2020, Petron had installed POS terminals in more than 1,300 retail service stations in the Philippines.

#### *Industrial Sales*

Petron believes it is the leading supplier to the Philippine industrial sector, which includes major manufacturing, aviation, marine, and power accounts. Petron had approximately 600 direct industrial account customers as of December 31, 2020.

#### *LPG*

Petron is the leading market participant in the Philippine LPG market in terms of market share. Petron has set up approximately 1,100 branch stores through its Gasul and Fiesta Gas LPG dealers as of December 31, 2020. Petron commissioned 11 mini-refilling plants in the Philippines as of December 31, 2020 to broaden the reach of Petron's LPG products and make them accessible to more Filipinos.

#### *Lubricants, Specialties and Petrochemicals*

To augment lubricants and greases sales, Petron has a network of approximately 41 car care centres, 112 auto/motorcycle care shops, and more than 1,900 service stations selling lube products throughout the Philippines as of December 31, 2020. Petron capitalizes on its expanded distribution network for Petron's lubricants and specialty products. Petron has expanded into blending and export of fuel additives, leveraging on its technology partnership with Innospec, a global fuel additives supplier. Petron also provides technical services to Innospec's customers and is able to tap the customer base of Innospec in Asia to broaden the market for its own lubricant brands.

Petron exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region. These products are sold through accredited traders and to end-users under term or spot contracts.

Polypropylene is sold mostly to companies engaged in the manufacture of packaging materials.

#### *Loyalty Programs*

Petron actively pursues initiatives to improve customer service and promote customer loyalty. In 2004, Petron launched the Petron Fleet Card, the first microchip-powered card in the Philippines, which is a credit card that offers rebates and discounts on fuel, lubricants and services and provides 24-hour free towing and roadside assistance to cardholders. As of December 31, 2020, there were approximately 212,000 active fleet cards in the Philippines and approximately 101,000 in Malaysia. In 2008, Petron launched Petron e-Fuel Card as a promotional item. To maximize patronage of its service stations and related businesses, Petron launched a loyalty program in October 2011 through its Petron Value Card, which offers 24-hour free towing and roadside

assistance, rewards points for every purchase and complimentary annual personal accident insurance coverage. In the fourth quarter of 2014, Petron introduced the Petron Super Driver Card, a variant of the Petron Value Card, to the public utility vehicle sector, specifically targeting the taxi and tricycle markets. As of December 31, 2020, Petron has issued approximately 5.6 million Petron Value Cards (including Petron Super Driver Cards).

## *Malaysia*

Petron's fuels marketing business in Malaysia is divided into retail business and commercial sales.

### *Retail Service Stations*

The retail business markets fuel and other retail products through a dealer network comprising about 700 retail service stations located throughout Peninsular and East Malaysia. In Malaysia, Petron uses the CODO and DODO operating structures for its retail service stations. As of December 31, 2020, approximately 60.0% of Petron's retail service stations in Malaysia were CODOs and approximately 40.0% were DODOs. About 300 of the service station sites have Treats convenience stores, which generate non-fuel revenues and improve traffic in the service stations.

To further enhance the customer service experience in Malaysia, Petron launched the "Fuel Happy" campaign in March 2015 with many marketing activities and events organized to reward and enchant the customers. It was followed by "Fuel Happy 2.0", which was launched in 2017.

In January 2016, Petron pioneered the country's first 100 RON fuel with the roll out of the new Blaze 100 to eight pilot sites in Klang Valley. As of December 31, 2020, Blaze 100 is available in more than 100 stations, mainly located in most states in Peninsular Malaysia.

### *Industrial and Wholesale Fuels*

The industrial segment sells diesel and gasoline to unbranded mini-stations and power plants, as well as to the manufacturing, plantation, transportation and construction sectors. Petron's sales of RON 95 gasoline and diesel to unbranded mini stations represented approximately about 40% of Industrial Sales in Malaysia by volume in December 31, 2020. Sales to the mini stations are priced according to the APM. Many power plants in Malaysia run on natural gas and use diesel as alternative fuel when there are gas curtailments. Petron sells diesel to such power plants on an ad-hoc basis at formulated prices. The pricing of these sales is determined through a formula that is linked to international industry benchmarks. Prices of diesel to the manufacturing, mining, plantation, and construction sectors are not regulated by the Malaysian government, and the pricing of these sales is subject to market supply and demand.

The Malaysian wholesale segment consists of sales, primarily of diesel, to distributors appointed by Petron, which subsequently sell Petron's products to industrial customers. As of December 31, 2020, Petron had about 180 active distributors. The fuel business in Malaysia is regulated by the Malaysian government, and Petron is affected by Malaysian government policies and regulations relating to the marketing of fuel products.

In Malaysia's aviation sector, Petron is one of the three major jet fuel suppliers at **KLIA** and Kuala Lumpur International Airport Terminal 2 ("**KLIA 2**") pursuant to a throughput agreement with the Kuala Lumpur Aviation Fuelling System, the operator of the KLIA's storage and hydrant facility.

### *LPG*

Petron markets LPG in 12kg, 14kg and 50-kg cylinders and in bulk for domestic and commercial use through redistribution centres, stockists and dealers. LPG redistribution centres are owned by Petron to store and distribute bottled LPG to dealers. Stockists are dealer-owned distribution centres which also distribute bottled LPG to other dealers. Dealers generally collect bottled LPG directly from redistribution centres and stockists for onward sale to domestic and commercial consumers. Prices of 12-kg and 14-kg cylinders for domestic use are regulated under the APM. In April 2019, Petron launched Petron Gasul at service station, the first "cash and carry" service wherein customers can purchase their LPG cooking gas at the service station.

Petron also sells bulk LPG to industrial users through appointed dealers and to resellers. Prices of 14-kg forklift gas, 14-kg commercial gas, 50-kg and bulk LPG are not covered by the APM. To further enhance Petron Gasul's brand, Petron has identified three Brand Promises to drive its business forward, which are "Safety, Quality &

Convenience”.

### *Lubricants and Specialties*

Petron established a lubricants and specialties division in April 2012 to introduce Petron lubricants and greases into the Malaysian market. These products are marketed through a network of appointed distributors in both West and East Malaysia to various industry segments, namely, car and motorcycle workshops, transport and fleet operators, manufacturing and industrial accounts. Petron’s wide range of automotive lubricants are sold through Petron’s extensive network of service stations in Malaysia.

Petron exports surplus intermediate products LSWR and naphtha from the Port Dickson Refinery through accredited traders and to end-users under term or spot contracts.

To meet the government’s biofuel mandate, in March 2019, Petron acquired a PME plant in Lumut, Perak. This is to ensure adequate supply of quality PME to Petron service stations. Apart from PME, the Lumut plant also produces glycerin that is sold to local & overseas manufacturers. Glycerin is found in many moisturizing skin care products and soaps.

### *Loyalty Programs*

Since acquiring its Malaysian operations in March 2012, Petron has been actively pursuing initiatives to improve customer service and promote customer loyalty at its Malaysian retail service stations. Petron rebranded its loyalty card programs to PMILES in April 2014 as part of its rebranding program in Malaysia. As of December 31, 2020, approximately 11.5 million PMILES Cards have been issued in Malaysia.

## **Distribution**

### *The Philippines*

Petron’s main storage facility in the Philippines was formerly located in Pandacan, Manila. The reclassification by local authorities of the area occupied by the Pandacan terminal prohibited the continued operation of Petron’s facility in Pandacan as a petroleum storage facility and necessitated relocation to other alternative sites in Luzon. Petron ceased its petroleum product storage operations in Pandacan in January 2015.

To serve its domestic markets, Petron maintains 33 terminals and airport installations situated throughout the Philippines, representing the most extensive distribution network for petroleum products in the Philippines. The network comprises 13 terminals in Luzon, 8 in the Visayas and 8 in Mindanao, as well as two airport installations in Luzon, and two in Mindanao. Terminals have marine receiving facilities, multiple product storage tanks for liquid fuels and LPG, drummed products storage, and warehouses for packaged products, such as lubricants and greases. From the Limay Refinery, refined products are distributed to the various terminals and direct large consumer accounts using a fleet of contracted barges and tankers, and to service stations and industrial accounts through a fleet of contracted tank trucks. The barges and tankers are chartered on term or spot contracts from third-party ship owners. From the storage terminals, bulk products are hauled by tank trucks owned by third parties to service stations and industrial accounts. Under the terms of the applicable contracts, the third-party owners of the contracted barges and tankers and tank trucks that are used to haul Petron’s products are liable for losses and environmental issues that may arise while the products are being transported.

In its Philippine LPG business, Petron has a nationwide network of retail dealerships and outlets. Some service stations carry Petron’s LPG products and accessories. Petron has stand-alone LPG operations in its terminals in Pasig City, Legaspi City and San Fernando in Pampanga.

Lubricants and greases in various packages are transported by container vans to bulk plants and terminals outside Metro Manila. Package trucks owned by third parties are utilized to deliver these lubricants and greases to various customers in Metro Manila and Luzon. Sales counters throughout the Philippines are appointed to sell these products. Petron has a tolling agreement with Innospec for the blending of fuel additive products in its fuel additive blending plant in the Subic Bay Freeport Zone in the Philippines.

Petron has airport installations at the Ninoy Aquino International Airport and three other airports located in major urban centres in the Philippines. These installations provide storage of aviation fuels as well as refuelling services for various aircraft. In addition, Petron has presence in the airports of Puerto Princesa and Clark in

Luzon, Mactan, Bohol, Kalibo, Caticlan and Iloilo City in the Visayas, as well as in Zamboanga City in Mindanao via mobile into plane refuelling equipment.

### ***Malaysia***

Production from the Port Dickson Refinery is distributed to service stations through tank trucks that lift products via the Port Dickson Terminal's tank truck loading facilities. These loading facilities are connected to the storage tanks inside refinery. Refinery production is also sent to KVDT through a pipeline. Tank trucks lift products from KVDT for delivery to Petron stations. The other terminals source product through imports from regional suppliers. Products are lifted from the terminals via tank trucks and delivered to service stations.

Jet fuel is transported from the Port Dickson Refinery to KLIA through an MPP, which is partly owned by Petron through its 20% ownership interest in an unincorporated joint venture with Petronas Dagangan Berhad (“PDB”) and Shell Malaysia Trading Sdn Bhd (“Shell Malaysia”), each of which has a 40% ownership interest. The MPP is a fungible products pipeline for transporting gasoline, diesel and jet fuel and is operated by PS Pipeline Sdn Bhd, a 50-50 joint venture between PDB and Shell Malaysia.

The joint venture through which Petron owns its interest in the MPP also owns a fuel terminal, the KVDT, where inventory is commingled. Petron has historically only used the MPP to transport jet fuel to KLIA and not for transporting gasoline or diesel to the KVDT. In 2015, Petron completed a project linking the Port Dickson Refinery to the MPP in order to improve Petron’s logistics and reduce the cost of delivery to service stations in the Klang Valley area, a major market. Petron commenced the transport of gasoline and diesel through the MPP to the KVDT in the second quarter of 2015.

LPG is bottled at the Port Dickson and Westport terminals. Most redistribution centres and stockists collect bottled LPG directly from the Port Dickson and Westport terminals. Petron has an LPG storage and bottling facility at West Port (part of Port Klang, the principal port facility serving the Klang Valley), which is a 50-50 joint venture between Petron and Boustead Petroleum Marketing Sdn Bhd. Both terminals also load for Bulk LPG customers. Petron has contracted new third-party bottling facilities to expand the reach of its Gasul cylinders. Among these are Siraga in Perak and Sikap Mawar in Prai, Gas Asia in Kota Bharu.

### **Competition**

#### ***The Philippines***

The Philippine downstream oil industry is dominated by three major oil companies: Petron, Shell and Chevron, which, based on estimates of Petron based on its internal assumptions and calculations and industry data from the DOE for the year 2019, together constituted around 54.0% of the Philippine market based on sales volume. Deregulation has seen the entry of more than 200 other industry market participants, rendering the petroleum business more competitive. Petron, with total crude oil distillation capacity of 180,000 barrels per day, and Shell, with total crude oil distillation capacity of 110,000 barrels per day, operate the only petroleum refineries in the country. The rest of the industry market participants are importers of finished petroleum products or purchase finished petroleum products from other market participants in the local market. In the Philippines, Petron competes with other industry market participants on the basis of price, product quality, customer service, operational efficiency and distribution network, with price being the most important competitive factor. Providing total customer solutions has increased in importance as consumers became more conscious of value.

Petron participates in the reseller (service station), industrial, LPG and lube sectors through its network of service stations, terminals, dealers and distributors throughout the Philippines. In the reseller sector, competition is most dynamic among the major firms, as seen through the construction of service stations by Shell, Chevron, Total Philippines, Phoenix Petroleum, Seoil and other new participants in major thoroughfares. Petron has more than 2,400 retail service stations as of December 31, 2020, representing approximately 25.0% of the country’s total service station count from DOE of about 9,300, reaching more customers throughout the Philippines. Other players continued to grow, with station count increasing from 695 in 2001 to more than 5,000 stations as of December 31, 2020. Participants in the reseller and LPG sectors continue to resort to aggressive pricing and discounting in order to expand their market share. The number of major LPG importers in the Philippines increased from three, prior to deregulation, to about seven, with new entrants having more flexible and bigger import receiving capacities. In the industrial sector, the major market participants continue to invest heavily in order to increase their market share and tap new markets. In the lubricants sector, intense competition among approximately 50 brands, including global brands such as Castrol, Mobil, Shell and Caltex, continues.

Brands compete for limited shelf space, which has led to the penetration of previously unutilized markets, such as auto-dealerships in malls.

Petron believes it is the leader in the Philippine downstream oil industry, with an overall market share of 26.5% of the Philippine oil market as of December 31, 2020. The other two major oil companies have a combined market share of about 27.6%, in terms of sales volume based on estimates using Petron's internal assumptions and calculations and industry data from the DOE. Approximately 350 smaller oil market participants, based on end 2019 DOE report, which started operations after the deregulation of the oil industry in 1998, account for the remaining market share. Petron believes that it is the leader in terms of sales volume in the retail, industrial and LPG market segments based on estimates using its internal assumptions and calculations and industry data from the DOE in the year ended 2019.

Petron's retail sales volumes for the years ended 2018, 2019 and 2020 were approximately 59,000 barrels per day, 53,000 barrels per day, and 39,000 barrels per day, respectively. Petron's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2018, 2019 and 2020 were approximately 115,000 barrels per day, 105,000 barrels per day, and 64,000 barrels per day, respectively.

Petron believes that its competitive advantages include organization, technology, assets, resources and infrastructure. Petron continues to implement initiatives aimed at improving operational efficiencies, managing costs and risks, and maximizing utilization of its assets and opportunities.

### ***Malaysia***

In the retail service station business, Petron's Malaysian operations compete with four other main participants in the market, namely: subsidiaries of Petronas, Shell, Caltex and BHPetrol. Of these competitors, Petronas also has refinery operations in Malaysia. Market players compete in terms of product quality, customer service, operational efficiency and extent of distribution networks. Pricing of gasoline and diesel at retail service stations is not a competitive factor since the Malaysian government regulates the pricing these products through the APM.

Despite being the newest participant in the market, Petron continued to grow its retail market share more than 21% with approximately 700 service stations in Malaysia, as of December 31, 2020. With Petron's customer-centric programs, completion of the rebranding of service stations and facilities, continuous implementation of retail network expansion program, introduction of new product lines, and improvements in logistics and refinery capabilities, Petron believes that it is well positioned to compete in the retail segment.

Petron continues to face intense competition in the industrial, aviation and wholesale market segments from other local and multi-national oil companies. Petron uses its local production from the Port Dickson Refinery and its strategic terminal locations across Malaysia to remain competitive in these segments. Besides the mini stations, fisheries and some selected transportation sectors, which are governed by the APM, other sectors do not benefit from the subsidies provided for under the APM. Major participants resort to aggressive pricing in these segments in order to expand market share. The aviation market is also very competitive, as the three local refiners offload their jet fuel through the MPP to KLIA. Sales of jet fuel at the other Malaysian airports are supplied by the oil companies having the necessary storage and logistics capability. In the LPG segment, Petron competes with Petronas and NGC Energy Sdn Bhd, among others. The APM applies only for sales of LPG in domestic cylinders, while industrial and bulk LPG are not covered. Competition in this market is driven by supply reliability, dealer network efficiency and customer service. Petron, being well established, remains competitive in this segment. Overall, Petron's commercial sales volume registered significant growth in all sectors as a result of Petron's reliable and steady supply of quality fuel to sectors such as transportation, manufacturing, construction, mining, agriculture, and power generation. Petron's retail sales volumes for the years ended 2018, 2019 and 2020 were approximately 80,000 barrels per day, 83,000 barrels per day, 69,000 barrels per day, respectively.

The lubricants and specialties market is dominated by the traditional global brands, as well as established local participants. Petron leverages on its growing network of service stations to market its products and to provide brand presence. Price is a major competitive factor in this market. Petron believes that it is well positioned to compete in this market, due to its efficient blending plant and supply chain, and national consumer promotion through service station and independent workshops.

## Health, Safety and Environmental Matters

Petron is guided by its Corporate Health, Safety and Environment Policy (the “**Corporate HSE Policy**”). The principles of the Corporate HSE Policy apply to all assets, facilities, and operating and support groups of Petron. Petron has a Corporate Technical Services Group (“**CTSG**”) responsible for formulating, implementing and enforcing its employee health, safety and environment policies, as well as ensuring compliance with applicable laws and regulations in the Philippines.

## Research and Development

To enhance productivity and efficiency, reduce costs and strengthen its competitiveness, Petron engages in research and development to identify improvements that can be made to its products and production processes. Petron’s R&D Department engages in various technical research and testing activities to develop and enhance the performance of the products and optimize production processes. In addition to research and product development, it also engages in quality control and technical training. The development, reformulation and testing of new products are continuing business activities of Petron.

R&D develops revolutionary products that meet and exceed the highest industry quality standards. Petron utilizes appropriate technology in developing new fuel and lubricant products to improve product’s performance, quality level and cost-effectiveness. R&D also continuously seeks ways on developing more eco-friendly petroleum products. Petron remains fully compliant with all government laws and regulations such as the Clean Air Act and the Biofuels Act.

In addition to these regulations, Petron also secures stringent certifications and approvals from global industry certifying institutes and original equipment manufacturers to be more competitive both in local and international markets. These approvals are applicable to specific Petron products in the Philippines, Malaysia, China, Brunei, and Cambodia.

Petron believes that its continued success is influenced in part by its ability to be innovative and attentive to consumer preferences and local market conditions. Expenses relating to research and development amounted to approximately ₱86 million in 2018, approximately ₱76 million in 2019, and approximately ₱66 million in 2020, which are equivalent to less than 0.02% of total revenues in 2018, 2019, and 2020. The lower spend in 2019 and 2020 is mainly attributed to the introduction and implementation of Total Quality Management (TQM) focused on resource rationalization and process improvement programs.

As of December 31, 2020, R&D has 27 regular employees. Its testing facilities are ISO/IEC17025 certified – a testament to its ability to perform tests and analyses in accordance with global standards. R&D also has long-standing partnerships with leading global technology providers in fuels, lubricants and grease products. In addition, it provides technical training to keep internal and external customers updated of the latest technology trends in the industry.

## ENERGY BUSINESS

SMC operates its energy business through its wholly-owned subsidiary, SMC Global Power.

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 more recently, BESS. Based on the total installed generating capacities reported in the 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 entered the power industry in 2009 following the acquisition of rights to administer the output produced by Independent Power Producers (“**IPPs**”) in privatization auctions conducted by the Government through Power Sector Assets and Liabilities Management Corporation (“**PSALM**”). The following companies under the SMC group became the IPPA of the following plants: (1) San Miguel Energy Corporation (“**SMEC**”) became the Independent Power Producer Administrator (“**IPPA**”) for the Sual Power Plant, a coal-fired thermal power plant located in Sual, Pangasinan, in November 2009; (2) Strategic Power Development Corporation (“**SPDC**”) became the IPPA for the San Roque Power Plant, a hydroelectric power plant located in San Manuel,

Pangasinan in January 2010; and (3) South Premiere Power Corporation (“**SPPC**”) became the IPPA for the Ilijan Power Plant, a natural gas-fired combined cycle power plant located in Ilijan, Batangas in June 2010 (the Ilijan Power Plant, Sual Power Plant and San Roque Power Plant are collectively referred to as the “**IPPA Power Plants**”).

An IPPA under the relevant IPPA agreement has the right to sell electricity generated by the power plants owned and operated by the relevant IPPs without having to bear any of the large upfront capital expenditures for power plant construction or maintenance. As an IPPA, each of SMEC, SPDC and SPPC also has the ability to manage both market and price risks by entering into bilateral contracts with offtakers while capturing potential upside from the sale of excess capacity through the wholesale electricity spot market (the “**WESM**”).

In September 2010, SMC consolidated its power generation business through the transfer of its equity interests in SMEC, SPDC and SPPC to SMC Global Power. SMC Global Power also became a wholly-owned subsidiary of SMC. Since then, SMC Global Power has controlled the 2,545 MW combined contracted capacity of the IPPA Power Plants through the IPPA agreements executed by SMEC, SPDC and SPPC, respectively.

Building on its experience as an IPPA since SMC’s transfer of interests in SMEC, SPDC and SPPC, SMC Global Power embarked on the development of its own greenfield power projects. In 2013, SMC Global Power initiated two greenfield power projects, namely, the construction of the 2 x 150 MW Davao Greenfield Power Plant which is owned by San Miguel Consolidated Power Corporation (“**SMCPC**”), its wholly-owned subsidiary, and the 4 x 150 MW Limay Greenfield Power Plant which is owned by SMC Consolidated Power Corporation (“**SCPC**”), another wholly-owned subsidiary. 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. SMC Global Power also pursued strategic acquisitions to increase its energy portfolio. In November 2014, SMC Global Power, through its subsidiary PowerOne Ventures Energy Inc. (“**PVEI**”), acquired a 60.0% stake in Angat Hydropower Corporation (“**AHC**”), the owner and operator of the 218 MW AHEPP.

On March 20, 2018, SMC Global Power acquired 51% and 49% of the equity interests in SMCGP Masin Pte. Ltd. (“**SMCGP Masin**”, formerly Masin AES Pte. Ltd.) from AES Phil Investment Pte. Ltd. (“**AES Phil**”) and Gen Plus B.V., respectively. SMCGP Masin indirectly owns, through its subsidiaries, Masinloc Power Partners Co. Ltd. (“**MPPCL**”) and SMCGP Philippines Energy Storage Co. Ltd. (“**SMCGP Philippines Energy**”), formerly AES Philippine Energy Storage Co. Ltd. (collectively referred to as the “**Masinloc Group**”). On September 19, 2018, Prime Electric Generation Corporation (“**PEGC**”), a wholly-owned subsidiary of SMC Global Power, and Oceantech Power Generation Corporation (“**OPGC**”) purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin. MPPCL owns, operates and maintains the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) coal-fired power plant and 335 MW (Unit 3) expansion project (together, comprising the “Masinloc Power Plant”), and the 10 MWh battery energy storage system project (the “**Masinloc BESS**”), all located in Masinloc, Zambales, while SMCGP Philippines Energy completed the construction and installation of the 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the “**Kabankalan BESS**”). SMC Global Power was admitted as an additional limited partner of SMCGP Masinloc Partners Co. Ltd. in 2019 (a limited partnership under the Masinloc Group) and of MPPCL in June 2020.

As part of the purchase relating to the Masinloc power assets, SMC Global Power also acquired SMCGP Transpower Pte. Ltd. (“**SMCGP Transpower**”) and SMCGP Philippines, Inc. (“**SPHI**”). SMCGP Transpower was a subsidiary of The AES Corporation, which provides corporate support services to MPPCL through its Philippine regional operating headquarters, while SPHI is a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

In July 2018, PEGC acquired the entire equity interest of ALCO Steam Energy Corporation in Alpha Water Realty & Services Corporation (“**Alpha Water**”), representing 60.0% of the outstanding capital stock of Alpha Water. As a result, SMC Global Power now effectively owns 100.0% of Alpha Water through its subsidiaries, PEGC and MPPCL. Alpha Water is the owner of the land on which the current site of the Masinloc Power Plant in Zambales Province is located.

In September 2018, PEGC and OPGC purchased the entire partnership interests in SMCGP Philippines Energy from subsidiaries of SMCGP Masin.

In February 2020, Strategic Energy Development Inc. (“SEDI”) executed an agreement for the acquisition of the 15 MW multi-fuel peaking power plant (“**Tagum Peaking Power Plant**”) located at Tagum City, Davao del Norte owned by EEI Power Corporation for U.S.\$11 million to provide back-up power to the Davao Greenfield Power Plant.

SMC Global Power will also increase its ownership interest in Mariveles Power Generation Corporation (“**MPGC**”) by subscribing to 29,177,717 common shares of MPGC out of the increase in its authorized capital stock upon approval of the Philippine SEC. These subscriptions will increase the Company’s ownership interest in MPGC from 89.54% to 91.98%, as a result of the waiver by Meralco Powergen Corporation, Zygnet Prime Holdings, Inc., and the other stockholders of MPGC, of their right to contribute additional equity. MPGC intends to develop, construct, finance, own, operate and maintain a 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan.

SMC Global Power is also engaged in distribution and retail electricity services. In April 2013, SMC Global Power, through SMC Power Generation Corp. (“**SPGC**”), acquired 35% equity stake in Olongapo Electric Distribution Company, Inc. (“**OEDC**”). In October 2013, SMC Global Power entered into a concession agreement for the operation and maintenance of Albay Electric Cooperative, Inc. (“**ALECO**”), which is the franchise holder for the distribution of electricity in the province of Albay in Luzon. All the rights, interests and obligations of SMC Global Power under the concession agreement with ALECO was assumed by its wholly-owned subsidiary, Albay Power and Energy Corp. (“**APEC**”) on November 2013. SMC Global Power has also expanded its sale of power to a broader range of customers, including retail customers. The three retail electricity supplier (“**RES**”) licenses issued to SMC Global Power, through San Miguel Electric Corporation (“**SMELC**”), SCPC and MPPCL, 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 and MPPCL, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. The majority of the consolidated sales of SMC Global Power are through long-term take-or-pay offtake contracts most of which have provisions for passing on fuel costs, foreign exchange differentials and certain other fixed costs.

SMC Global Power through its subsidiaries was able to secure new power supply agreements with Meralco after participating in the various CSP activities conducted by Meralco in 2019 as follows: (i) contract with SPPC for the supply of 670 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029, (ii) contract with SPPC for the supply of 290 MW mid-merit power requirements for a period of five years from December 26, 2019 until December 25, 2024 , and (iii) contract with SMEC for the supply of 330 MW for baseload power requirements for a period of 10 years from December 26, 2019 until December 25, 2029. These three contracts have been executed by the relevant parties, and have been approved by the ERC.

In 2021, EERI and MPPCL were awarded the following twenty (20)-year power supply agreements with Meralco after emerging as the winning bidders in another CSP conducted by Meralco in January 2021 for its 1800 MW (net) power requirements: (i) Power Supply Agreement with EERI for the supply and delivery of 1200 MW contract capacity with commercial operations date on 26 November 2024 and expiring on 25 November 2044; and (ii) Power Supply Agreement with MPPCL for the supply and delivery of 600 MW contract capacity with commercial operations date on 26 April 2025 and expiring on 25 April 2045. These power supply agreements have been executed by the relevant parties and have been filed with the ERC for approval.

The following table sets forth selected data in respect of SMC Global Power’s power generation assets and interests as of the date of this Prospectus.



|                                                        | IPPA Plants                                    |                |                                        | JV Plant                                                 | IPP Plant                                                                       | Greenfield Plants                     |                                                            |
|--------------------------------------------------------|------------------------------------------------|----------------|----------------------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------|------------------------------------------------------------|
|                                                        |                                                |                |                                        |                                                          | Masinloc and Masinloc                                                           |                                       |                                                            |
|                                                        | Sual                                           | Ilijan         | San Roque                              | Angat                                                    | BESS                                                                            | Davao                                 | Limay                                                      |
| Type .....                                             | Coal                                           | Natural Gas    | Hydro                                  | Hydro                                                    | Coal and Battery                                                                | Coal                                  | Coal                                                       |
| Commercial Operations Date .....                       | 1999                                           | 2002           | 2003                                   | 1967<br>(112 MW);<br>1968<br>(100 MW);<br>1978<br>(6 MW) | 1998<br>(660 MW);<br>2018<br>(14 MW);<br>2018<br>(10 MWh);<br>2020E<br>(335 MW) | 2017<br>(150 MW);<br>2018<br>(150 MW) | 2017<br>(300 MW);<br>2018<br>(150 MW);<br>2019<br>(150 MW) |
| Year of Acquisition .....                              | 2009                                           | 2010           | 2010                                   | 2014                                                     | 2018                                                                            | —                                     | —                                                          |
| Total Installed Capacity (MW) <sup>(1)</sup> .....     | 1,000                                          | 1,200          | 345                                    | 218                                                      | 1,019                                                                           | 300                                   | 600                                                        |
| Technology .....                                       | Pulverized Coal                                | Combined Cycle | Storage Hydropower                     | Storage Hydropower                                       | Pulverized Coal <sup>(6)</sup> and Battery Energy Storage System                | Circulating Fluidized Bed             | Circulating Fluidized Bed                                  |
| Emission Levels <sup>(2)</sup>                         |                                                |                |                                        |                                                          |                                                                                 |                                       |                                                            |
| NOx (ppm) .....                                        | 187.1                                          | —              | —                                      | —                                                        | 96.4                                                                            | 72.4                                  | 70.8                                                       |
| SOx (ppm) .....                                        | 329.1                                          | —              | —                                      | —                                                        | 116.4                                                                           | 89.5                                  | 57.5                                                       |
| PM (Mg/Nm <sup>3</sup> ) .....                         | 12.8                                           | —              | —                                      | —                                                        | 53.7                                                                            | 9.5                                   | 7.4                                                        |
| Operator .....                                         | TeaM Sual Corp.                                | KEILCO         | SRPC                                   | AHC                                                      | Mantech                                                                         | Safetech                              | Mantech                                                    |
| Offtakers <sup>(3)</sup> .....                         | Meralco, ECs, DUs, DCCs, Third-Party RES, WESM | Meralco, WESM  | Intercompany <sup>(4)</sup> , DU, WESM | Intercompany, WESM                                       | Meralco, DUs, CCs, WESM                                                         | ECs, DUs, DCCs                        | DCCs, ECs, DUs, CCs, WESM                                  |
| IPPA Expiry / Asset Transfer Date <sup>(5)</sup> ..... | 2024                                           | 2022           | 2028                                   | N/A                                                      | N/A                                                                             | N/A                                   | N/A                                                        |

*Notes:*

- (1) Includes the capacity of Unit 3 of Masinloc Power Plant, which started commercial operations on September 26, 2020.
- (2) See “—Safety, Health and Environmental Regulation” for information on DENR emission standards. Emission levels for the Masinloc Power Plant excludes the Masinloc BESS and emissions from the commissioning and testing of Masinloc Unit 3.
- (3) DUs: Distribution Utilities; ECs: Electric Cooperatives; CCs: Contestable Customers; DCCs: Directly Connected Customers.
- (4) Within the SMC Global Power group.
- (5) Under the respective IPPA Agreements of SMEC, SPDC and SPPC, these subsidiaries of SMC Global Power have the right to acquire the Sual Power Plant in October 2024, the Ilijan Power Plant in June 2022 and the San Roque Power Plant in April 2028, respectively. See “—IPPA Framework.”
- (6) The Unit 3, Masinloc Power Plant utilizes supercritical boiler technology. Units 1 and 2 of the Masinloc Power Plant utilize pulverized technology.

In addition, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, 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 imminently, 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.

For the years ended December 31, 2018, 2019 and 2020, SMC Global Power sold 20,273 GWh, 26,133 GWh

and 23,900 GWh, of power pursuant to bilateral offtake agreements and 3,590 GWh, 1,979 GWh and 2,215 GWh, of power through the WESM, respectively. For the years ended December 31, 2018, 2019 and 2020, SMC Global Power purchased 1,144 GWh, 1,973 GWh and 1,876 GWh, of power from the WESM, respectively.

For the year ended December 31, 2018, 2019 and 2020, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱120,102.8 million, ₱8,300.1 million, ₱10,716.9 million, ₱135,060.1 million, ₱14,363.5 million and ₱8,297.3 million; and ₱115,028.7 million, ₱18,873.5 million and ₱12,664.2 million, respectively.

The table below sets forth the gross profit margin, EBITDA margin and net income before tax margin of SMC Global Power for the periods indicated:

|                                                   | For the years ended<br>December 31,    |         |          |
|---------------------------------------------------|----------------------------------------|---------|----------|
|                                                   | 2018                                   | 2019    | 2020     |
|                                                   | (in millions, except in<br>percentage) |         |          |
|                                                   | ₱                                      |         |          |
| Sales .....                                       | ₱ 120,103                              | 135,060 | ₱115,029 |
| Gross profit .....                                | 39,285                                 | 43,302  | 43,133   |
| Gross profit margin <sup>(1)</sup> .....          | 32.7%                                  | 32.1%   | 37.5%    |
| EBITDA <sup>(2)</sup> .....                       | 10,717                                 | 8,297   | 12,664   |
| EBITDA margin <sup>(3)</sup> .....                | 8.9%                                   | 6.1%    | 11.0%    |
| Net income before tax .....                       | 12,202                                 | 21,627  | 26,797   |
| Net income before tax margin <sup>(4)</sup> ..... | 10.2%                                  | 16.0%   | 23.3%    |

Notes:

- (1) Calculated as gross profit divided by revenues.
- (2) EBITDA is calculated as (a) net income (excluding items between any or all of SMC Global Power and its subsidiaries) plus (b) income tax expense (benefit), finance cost (less interest income) and depreciation, in each case, excluding amounts attributable to ring-fenced subsidiaries less (c) foreign exchange gain (loss), gain on sale of investments and aggregated fixed payments made to PSALM.
- (3) Calculated as EBITDA divided by sales.
- (4) Calculated as net income before income tax divided by sales.

## Expansion Projects

Unit 3 of the Masinloc Power Plant (335 MW) completed commissioning and commenced commercial operations on September 26, 2020 increasing the capacity of the Masinloc Power Plant by approximately 50%. The Company also intends to further expand the Masinloc Power Plant by constructing an additional unit (Unit 4) having a planned installed capacity of 350 MW and with target completion date in 2024 and the Company is currently in the process of finalizing the EPC Contract for this project.

SMC Global Power currently owns 91.98% of the equity interests in MPGC, which intends to develop, construct, finance, own, operate and maintain a coal-fired power plant and associated facilities using high efficiency low emission technologies (“**HELE Technologies**”) with planned installed capacity of 600 MW in Mariveles, Bataan, expected to commence commercial operations in 2022 to 2023 (the “**Mariveles Greenfield Power Plant**”). The site development is at 47.6% completion as of December 2020, while the steam turbine for Unit 1 and the generator for Unit 2 were shipped in June 2020.

SMC Global Power, through its wholly-owned subsidiaries, including Central Luzon Premiere Power Corp. (“**CLPPC**”), also plans to pursue further expansion of its power portfolio through the development and construction of a new power plant using HELE Technologies located in Pagbilao, Quezon, with planned installed capacity of 600 MW with target completion date in 2024 to 2025 (the “**Pagbilao Greenfield Power Plants**”).

The company, through its subsidiaries, Universal Power Solutions, Inc. (UPSI) (formerly, Limay Power Generation Corporation), MPPCL and SMCGP Philippines Energy, is rolling out a grid-wide BESS project to

help improve power quality in the Philippine Grid System with a total installed capacity of up to 1,000 MWh. The Company expects 62% of the BESS project to reach substantial completion in 2021 and the remaining 38% in 2022. The BESS project includes the 20MWh BESS located in Kabankalan, Negros Occidental, which has attained substantial completion (including completion of testing and commissioning with NGCP) in December 2020.

In addition, and as part of the Company's diversification of its power portfolio into Liquefied Natural Gas ("LNG"), the Company, through its subsidiary Excellent Energy Resources Inc. ("EERI"), plans to construct an 1313.1 MW combined cycle power plant in Barangays Ilijan and Dela Paz Proper, Batangas (the "**Ilijan Expansion Plant**") and is evaluating utilizing natural gas for other contemplated projects, including possible projects in San Carlos City, Negros Occidental. Various EPC contractors have submitted offers for the development of combined cycle natural gas-fired power plants. These are expected to result in capital expenditure costs of approximately U.S.\$1.1 million/MW to U.S.\$1.3 million/MW, compared to U.S.\$2.2 million/MW for coal-fired plants. The projected construction period is also faster with estimates from the same offers ranging from 1.5 to 2 years compared with the construction period for coal-fired power plants, which have historically ranged from three to four years.

The Company is also exploring various LNG regasification and storage solutions, as well as possible improvements or retrofitting of the Ilijan Power Plant. The Company has identified locations for the Ilijan Expansion Plant, and is in the process of negotiating with potential EPC contractors as of December 31, 2020.

The Company continues to participate in competitive selection processes for PSAs with distribution utilities, and negotiate for retail supply contracts ("RSCs") with contestable customers for these expansion plans.

## **Strengths and Strategies**

### **Strengths**

#### ***Industry leader with a strong growth platform***

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 controls the capacities of among the largest baseload plants in the Philippines, including the Sual Power Plant (the largest coal-fired power plant in the Philippines in terms of installed capacity) and the Ilijan Power Plant (the largest natural gas power plant in the Philippines in terms of installed capacity). The subsidiaries of SMC Global Power, namely SMEC, SPDC and SPPC, are the IPPAs for the Sual, San Roque and Ilijan Power Plants, respectively, have a combined contracted capacity attributable to SMC Global Power of 2,545 MW. SMC Global Power also owns a 60% stake in AHC, the owner and operator of the 218 MW AHEPP, and wholly owns SCPC, SMCPC and MPPCL, the owners of the Limay Greenfield Power Plant, the Davao Greenfield Power Plant and the Masinloc Power Plant and Masinloc BESS, respectively. Based on the total installed generating capacities reported in the latest 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, as of December 31, 2020.

The IPPA business model provides SMC Global Power, through the IPPA subsidiaries, with the benefit of having the right to sell electricity generated by the IPPs without having to incur large upfront capital expenditures for power plant construction, or to bear any related development risk or ongoing preventive maintenance capital expenditures. The IPPA subsidiaries of SMC Global Power manage the amount of power to be produced by the IPP for supply to the customers of the IPPA and sell the power generated by the IPPs either pursuant to bilateral offtake agreements directly with customers or through the WESM. This business model provides SMC Global Power the ability to manage both market and price risk by entering directly into bilateral contracts with established customers while capturing potential upside through the sale of excess capacity through the WESM when spot market prices are attractive.

SMC Global Power's experience in acting as IPPA and its history of power plant ownership and operation has enabled it to gain significant expertise in the Philippine power generation industry. With this experience, SMC Global Power embarked on its own greenfield power projects and pursued strategic acquisitions. It believes that it is in a strong position to participate in the expected future growth of the Philippine power market, through both the development of greenfield power projects and the acquisition of existing power generation capacity, including NPC-owned power generation plants that are scheduled for privatization as asset sales or under the

IPPA framework, cost competitive baseload plants and renewable energy power plants.

To capitalize on changes in the Philippine regulatory structure, SMC Global Power, through SMELC, SCPC and MPPCL, holds RES licenses from the ERC, allowing the entry into offtake agreements with contestable customers. SMC Global Power, through SMEC and its subsidiaries, also maintains coal concession assets which, depending on prevailing global coal prices and the related logistical costs, may be tapped to serve as a back-up fuel source for its greenfield coal-fired power plants.

SMC Global Power is expected to expand its market leadership with its ongoing and future expansion that is anchored on cost competitive baseload plants. In addition, SMC Global Power is actively pursuing battery energy storage technology investments and initiatives in the Philippines that will help regulate the transmission grid over the Philippine archipelago, which is inherently prone to voltage and frequency instability.

### ***Well-positioned to capture future demand growth***

Demand for electricity in the Philippines is expected to continue to grow. According to the Power Development Plan 2016-2040 published by the DOE, to meet the projected electricity demand including reserve requirements by 2040, the power system capacity addition that the Philippines will need is 43,765 MW, which is broken down as follows: 25,265 MW for baseload, 14,500 MW for mid-merit and 4,000 MW for peaking. In its Power Demand and Supply Outlook 2018-2040 report as of October 2018, the DOE increased its forecasts and projected that additional 62,248 MW in installed capacity will be necessary, which is broken down as follows: 10,955 MW for baseload, 10,035 MW for peaking, 34,798 MW for variable, and 6,460 MW for flexible technologies. Moreover, based on SMC Global Power's estimates, despite the continuing build-up of installed capacity, net reliable capacity remains insufficient to meet peak demand. This considers the entry of variable capacities, composed primarily of intermittent renewable energies such as solar and wind, as well as the introduction of flexible technologies, such as BESS, which compensate for the intermittency of the variable capacities.

For the period 2018 to 2022, there is approximately 6,000 MW of private sector-initiated power projects that are either committed or indicative, according to the DOE. Construction of new power plants on average takes a minimum of three years. In addition, the depletion of the supply of natural gas from Malampaya, supplying 25.0% to 30.0% of net reliable capacity, may result in a reduction of energy generated by natural gas power plants beginning 2022. Given the gap between projected electricity demand and committed power projects, SMC Global Power expects that there will be a power supply shortage in the medium term until new capacity is built to meet the growing consumption.

SMC Global Power believes it is well-positioned to take advantage of opportunities from continued growth in the Philippine electricity market, as well as from the expected power supply shortage. The latter is exacerbated by an existing base of aging power plants, which will be over 20 years old by 2022 (currently representing 60% of net reliable capacity) and are thus prone to unscheduled shutdowns as well as a large base of seasonal power supply, such as hydropower plants in Mindanao. To meet this need, SMC Global Power has a defined roadmap to increase capacity by developing greenfield power plants and pursuing opportunities to invest in renewable energy projects, particularly in hydroelectric power and solar power projects and complementary technologies such as BESS.

SMC Global Power's expansion projects include the recently completed Unit 3 of the Masinloc Power Plant (335 MW), which commenced commercial operations on September 26, 2020. In addition, the Company has completed the construction and installation of the Kabankalan BESS (20 MWh) in March 2020 with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 91.98% of the equity interests in MPGC, which plans to develop, construct, finance, own, operate and maintain a 600 MW coal-fired power plant and associated facilities using HELE Technologies in Mariveles, Bataan. The site development is at 47.6% completion as of December 2020 while the steam turbine for Unit 1 and the generator for Unit 2 were shipped in June 2020. The Company plans to expand its power portfolio through the development and construction of the Ilijan Expansion Plant and further expansion of the Masinloc Power Plant (Unit 4) by 350 MW.

SMC Global Power believes that the increase in demand for electricity will also lead to growth in the ancillary reserve requirements of the country, which creates significant opportunities for BESS projects. SMC Global Power believes that it is well-positioned to capture growth in the reserve market through the expertise it has gained from operating the Masinloc BESS, the first of its kind in the Philippines. The Masinloc BESS provides more efficient ancillary services compared to other technologies, particularly for frequency regulating reserves,

because of its instantaneous response time and ability to charge and discharge power. SMC Global Power plans to utilize advanced lithium-ion battery technologies such as nickel-cobalt-manganese (NCM) based lithium-ion batteries which generally have longer useful lives (estimated at 8,200 cycles), high voltage capabilities, large storage capacity and improved roundtrip efficiencies.

Finally, as a leading power company in the Philippines with a large customer base, SMC Global Power believes that it is in a strong position to leverage its relationships with its existing customers to service their expected increase in electricity demand.

### ***Stable and predictable cash flows***

SMC Global Power, through its subsidiaries, sells power through offtake agreements directly to customers, including Meralco and other distribution utilities, electric cooperatives and industrial customers, or through the WESM. A substantial portion of the combined installed capacity of SMC Global Power is covered by bilateral contracts that cover the term of the IPPA Agreements, where applicable. Revenue from bilateral contracts with offtakers contributed 91%, 94% and 95%, of total revenue for the years ended December 31, 2018, 2019 and 2020. For the year ended December 31, 2020, approximately 46% and 45% of SMC Global Power's consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on the publicly available disclosures of Meralco, the largest distribution utility in the Philippines, SMC Global Power believes that it is one of Meralco's largest power supplier as of December 31, 2020, supplying approximately 23% of Meralco's power purchases. In addition, SMC Global Power is a dominant player in the RES markets where it operates, based on data obtained from the ERC as of September 30, 2020.

On September 13, 2019, Meralco issued the notices of award to SMEC and SPPC for PSAs for 330 MW and 670 MW, respectively, to supply its baseload power requirements from December 26, 2019 until December 25, 2029. In addition, on September 16, 2019, Meralco issued another notice of award to SPPC for the supply of 290 MW of mid-merit power requirements from December 26, 2019 until December 25, 2024. The three contracts have been executed between Meralco and the relevant IPPAs, and have been granted provisional authority by the ERC.

These contracts were awarded following the Supreme Court's decision on May 3, 2019 ruling that all PSAs of distribution utilities and electric cooperatives should undergo CSP. This effectively invalidated certain PSAs of Meralco for its greenfield demand totaling almost 3,600 MW. As a result, the DOE moved to immediately implement the CSP requirement and Meralco proceeded to bid out several power supply requirements requiring brownfield and greenfield power sources totaling 1,700 MW and 1,200 MW, respectively. While SMC Global Power was awarded an aggregate of 1,290 MW of the 1,700 MW brownfield requirements that were successfully bid out, the CSP for the 1,200 MW greenfield requirement was declared a failure of bidding. MERALCO, in early 2020, secured the approval of the DOE for the CSP of 1,800 MW greenfield baseload capacity for its requirements in 2024/2025, which includes 1,200 MW capacity from the failed CSP in 2019 and an additional 600 MW from the target 1,500 MW baseload capacity scheduled for bidding in 2020. The 1,800 MW contract capacity was the subject of the CSP conducted by Meralco in January 2021, in which the Company through its subsidiaries has participated. In addition, Meralco is expected to bid out additional greenfield requirements in the next few years. SMC Global Power believes this is an opportunity to contract its ongoing and planned expansion projects with Meralco and plans to participate in the bidding of the greenfield requirements.

These offtake agreements provide SMC Global Power, through its subsidiaries, with stable and predictable cash flow by enabling it to manage both market and price risks. Despite the general volatility in market prices for electric power due to supply and demand imbalances, SMC Global Power has been able to manage such risks through the contracted sale prices with offtakers, which also provide a long-term stable source of demand. Majority of the tariffs under these agreements take into account adjustments for fuel, foreign exchange, and inflation, thereby allowing SMC Global Power to pass through these costs to its offtakers. In addition, SMC Global Power's diversified portfolio of baseload and peaking power plants helps mitigate market risks through long-term, intercompany, replacement power contracts.

### ***Flexible and diversified power portfolio***

SMC Global Power has a portfolio that includes some of the newest and largest power plants in the Philippines. The baseload and peaking plants with diversified fuel sources of SMC Global Power allow it to manage costs

and offer more competitive baseload power rates. In addition, SMC Global Power also has capacity from its BESS facilities, which can provide more efficient ancillary services, and has synergistic effects with renewable technologies, among other applications. In particular, BESS technologies can strengthen the stability of a grid, while improving power quality.

As of December 31, 2020, the power portfolio of SMC Global Power includes (i) the IPPA Power Plants administered by SMC Global Power, through its subsidiaries, as the IPPA (comprising the Sual Power Plant with SMEC as IPPA representing 21% of SMC Global Power's capacity, the San Roque Power Plant with SPDC as IPPA representing 7% of SMC Global Power's capacity and the Ilijan Power Plant with SPPC as IPPA representing 26% of SMC Global Power's capacity), (ii) the AHEPP, through AHC, which represents 5% of the capacity of SMC Global Power, and (iii) the power plants owned by SMC Global Power, particularly the Limay Greenfield Power Plant of SCPC, which represents 13% of the capacity of SMC Global Power, the Davao Greenfield Power Plant, which represents 6% of the capacity of SMC Global Power, and the Masinloc Power Plant (with the Masinloc BESS), which represents another 22% of the capacity of SMC Global Power.

Power generated by the Sual Power Plant, Ilijan Power Plant, Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant, is primarily used as baseload supply and sold to customers pursuant to bilateral offtake agreements. Power generated by the San Roque Power Plant and the AHEPP is used as peaking supply, and sold through the WESM or as replacement power to affiliates. The entire capacity of the 10 MWh Masinloc BESS is contracted to the NGCP and provides regulating reserve ancillary services to the Luzon Grid under an ancillary services procurement agreement ("**ASPA**").

As of December 31, 2020, SMC Global Power's coal-fired plants accounted for approximately 62% of its capacity. In addition to the baseload coal-fired plants, the Company intends to increase its LNG capacities and BESS capacities, which together contribute to increasing the diversity of its generation portfolio. This is guided by the existing energy policy of the Government to provide relatively inexpensive and reliable power to residential and commercial customers without the need for subsidies or escalating tariffs. Feed-in-tariffs for renewable energy projects have been phased out by the Government, which makes it more challenging to embark on large-scale renewable energy projects. SMC Global Power continues to closely monitor all relevant fuel options, including renewables. The planned expansion of its BESS portfolio and gas-fired generation capacity reflects the Company's objective to reduce its overall carbon emissions and support the Government's climate policies and objectives, including the Philippines' commitments under the Paris Agreement.

SMC Global Power believes that the size and diversity of the fuel supply of its power portfolio reduces its exposure and that of its customers to fuel-type specific risks, such as variations in fuel costs, and regulatory concerns that are linked to any one type of power plant or commodity price. SMC Global Power believes that its management of the capacity of this diverse portfolio of power plants allows it to respond efficiently to market requirements at each point of the electricity demand cycle. This diversity helps it to improve the profitability of its portfolio by flexibly dispatching electricity in response to market demand and fuel cost competitiveness. SMC Global Power and its subsidiaries can enter into bilateral contracts and trade in the WESM for the balance of its contracted capacities and energy. By managing the IPPA Power Plants as a single portfolio and actively managing the energy output of the plants, SMC Global Power seeks to offer more competitive electricity rates compared to other power companies with smaller and less diverse portfolios.

#### ***Established relationships with world class partners***

The IPPA Power Plants are owned, operated and maintained by world-class partners, including Marubeni Corporation, Tokyo Electric Power Corporation, Korea Electric Power Corporation and Mitsubishi Corporation. Since entering the power business, SMC Global Power has established relationships with internationally recognized fuel suppliers in Indonesia and Australia, as well as with its customers, including Meralco, its largest customer. SMC Global Power also has strong working relationships with world-class EPC providers, such as Formosa Heavy Industries for its greenfield power plants, and battery EPC providers such as Fluence Energy, Inc. ("**Fluence**," a joint venture between Siemens and AES) for the Masinloc BESS and Kabankalan BESS and ABB, Inc. ("**ABB**") and Wartsila Finland Oy ("**Wartsila**") for BESS projects in the pipeline. The Company has also entered into and is forging new and strategic relationships with AG&P, for the Ilijan LNG Terminal through the TUA, and other LNG players, particularly for LNG Supply and for EPC of the Ilijan Expansion Plant.

SMC Global Power believes that these well-established relationships provide a strong foundation for its existing business and a platform of potential partners for future expansion.

### ***Experienced and highly competent management team***

The senior management of SMC Global Power has extensive experience in the Philippine power industry and has a deep understanding of the Philippine electricity markets with respect to the operational, financial, regulatory, and business development aspects of the operation and management of power plants. The senior management team of SMC Global Power has strong professional relationships with key industry participants, such as the DOE, PSALM, NPC, the National Transmission Corporation (“**TransCo**”), NGCP, PEMC and ERC, as well as other government offices and agencies. The employees of SMC Global Power include experienced energy traders who pioneered WESM trading and marketing executives who have established strong relationships with the extensive customer base of NPC. The members of the Executive Committee of SMC Global Power have an average of more than 25 years of experience in executive management and related government experience in the power industry, including strengths in key areas of engineering and finance. The executive and senior management have displayed a strong track record of growth and delivery since SMC Global Power commenced operations in November 2009.

### ***Strong commitment to stringent environmental policies and pollution controls***

SMC Global Power closely supervises, controls and process improvements in the power plants it owns and operates to ensure that regulated emissions are within and below applicable environmental compliance standards. For example, SMC Global Power uses CFB technology in its Limay Greenfield Power Plant and Davao Greenfield Power Plant. CFB technology is a technology employed to transform coal into a fuel source that is relatively low in pollutant emissions. These low emissions are made possible by processes that are not used in non-CFB coal-fired power plants, such as burning coal at low temperature and pressure, chemically washing minerals and impurities from the coal, gasification, treating the flue gases with steam to remove sulfur dioxide, carbon capture and storage technologies to capture the carbon dioxide from the flue gas and dewatering lower rank coals (brown coals) to improve the calorific value, thereby improving the efficiency of the conversion into electricity. In addition, CFB plants have other elements that reduce emissions, such as fine coal grinders, limestone injections, and electrostatic precipitators to capture dust particles that escape the boiler.

The company is committed to further reduce its emissions. Masinloc Power Plant Unit 3 uses supercritical boiler technology which, relative to an ordinary PC boiler (subcritical), has a significantly better combustion process resulting to improved heat rate of coal, which means less coal is required to produce a megawatt of electricity. The technology also allows the use of lower CV and lower sulfur coal, which is a key factor to lower SOx emissions.

In 2018, SMC Global Power won the following Asian Power Awards: Environmental Upgrade of the Year (Limay Greenfield Power Plant), Power Utility of the Year - Philippines (Davao Greenfield Power Plant) and Innovative Power Technology of the Year Philippines (Masinloc Power Plant). The Asian Power Awards recognize ground-breaking projects and trailblazing initiatives in the power sector in Asia. In 2019, the Davao Greenfield Power Plant was once again awarded by Asian Power Awards as the Power Utility of the Year - Philippines and Environmental Upgrade of the Year - Philippines for its carbon sink and bio indicator project. In the same year, the Masinloc Power Plant also garnered two awards, namely the Power Plant Upgrade of the Year – Philippines for its Ship Unloader Upgrade, and the Information Technology of the Year – Philippines for its SAP S4 and ARIBA Migration and Implementation project.

Moreover, SMC Global Power has dedicated teams who monitor environmental compliance with international standards. For example, the Sual Power Plant has an Environmental and Management System Certificate (ISO 14001), Occupational Standard on Health Safety Certificate (ISO 18001) and Quality Management System Certificate (ISO 9001). The same ISO certifications were received by the Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate (ISO 18001) in 2014, and the Asset Management System (ISO 55001) in 2018. The Davao Greenfield Power Plant was the first power plant in the Philippines to receive an Energy Management System Certificate (ISO 50001) in December 2018 and was recommended for certification for Asset Management System (ISO 55001) in October 2019.

### ***A member of the San Miguel Corporation group of companies***

The principal shareholder of SMC Global Power, San Miguel Corporation, is one of the largest and most diversified conglomerates in the Philippines, with sales equivalent to approximately 5.5% of Philippine GDP in 2019. In addition to its power business, San Miguel Corporation has market-leading businesses in vital industries that support the economic development of the country, including food and beverages, packaging, fuel and oil, infrastructure, property and investments in car distributorship and banking.

Under the stewardship of San Miguel Corporation, SMC Global Power has become one of the market leaders in the Philippine power industry in a relatively short period of time. San Miguel Corporation provides SMC Global Power with key ancillary and support services in areas that promote operational efficiency, such as human resources, corporate affairs, legal, finance and treasury functions. SMC Global Power believes it will continue to benefit from the extensive business networks of San Miguel Corporation, its in-depth understanding of the Philippine economy and expertise of its senior management to identify and capitalize on growth opportunities. Given the substantial electricity requirements of the other businesses of San Miguel Corporation, SMC Global Power believes that it can benefit from potential revenue and operational synergies and potentially provide a large captive energy demand base for SMC Global Power.

### **Strategies**

#### ***Optimize the installed capacity of its power portfolio and strategically contract capacity to enhance margins***

SMC Global Power (a) proactively manages its sales in order to achieve a balanced mix of power sales through (i) contractual arrangements with electricity customers including distribution utilities, industrial and commercial customers, and the contestable market and (ii) engaging in power trading through the WESM, and (b) optimizes the operations of its power plant portfolio through maximizing plant utilization, improving individual account and plant margins and minimizing the impact of supply interruptions. This approach provides SMC Global Power with the certainty and predictability of sales from its contracted capacity while being able to realize trading opportunities from the WESM to enhance its margins. The objective of SMC Global Power is to supply power based on the least cost, and to sell available excess power through the WESM at favourable prices.

Specifically, in case of high prices in the WESM, SMC Global Power can optimize its portfolio and take advantage of such pricing and sell the excess output of its power plants to the WESM after delivering the contractual amounts required under its offtake agreements. Alternatively, in case of low prices in the WESM, SMC Global Power can minimize the generation output of its power plants and deliver the contractual amounts required under its offtake agreements either with output from the San Roque Power Plant or with energy purchased from the WESM. In the event of tripping or shutdown of any of its power plants, SMC Global Power can maximize the dispatch of its remaining units by lowering the bid prices so that the bilateral contract quantity requirements will be served without buying at high prices from the WESM.

SMC Global Power plans to utilize capacity from its planned BESS for ancillary services to the grid, particularly frequency regulating reserves, through long-term ASPAs, which have terms of up to ten (10) years. SMC Global Power may also contract, as applicable, for other applications such as renewables integration, power quality improvement and arbitrage.

SMC Global Power also leverages on the diversity of its portfolio to create operational synergies and improve its supply offers to offtakers. Having a portfolio of baseload and peaking power plants utilizing different fuel sources allows SMC Global Power to actively respond to the needs of its offtakers and the market, particularly with regard to replacement power and pricing competitiveness.

#### ***Well-positioned as a leading baseload power generator utilizing clean power technologies.***

The company's greenfield projects in the pipeline include the planned LNG Ilijan Expansion Plant as well as clean coal-fired plants utilizing CFB and supercritical coal (e.g., Units 3 and 4 of Masinloc Power Plant) technologies. These technologies generally have lower emissions compared to the applicable benchmarks, as well as higher thermal efficiency levels, particularly for natural gas and supercritical coal plants. Capacities from these greenfield plants are well-suited to providing baseload generation to the Philippines, have high availability factors (with the existing Ilijan Power Plant registering an availability factor of 100% for the first nine months of 2020), and are generally strong contenders for securing downstream PSAs, which require HELE technologies.



The company believes that the proposed location of the Ilijan Expansion Plant adjacent to the existing Ilijan Power Plant will create significant operational benefits given the planned Ilijan LNG terminal. When constructed, the Ilijan LNG Terminal will be capable of receiving, storing, and regasifying LNG from the global market and supplying the LNG volume requirements of the Ilijan Power Plant and the Ilijan Expansion Plant. As the Ilijan Power Plant and Ilijan Expansion Plant are expected to be its major customers, these plants could negotiate for competitive terminal use rates, as well as preferential treatment and rights for terminal capacity under future TUAs. For example, the Company has already negotiated for certain terms under the TUA which it believes would be advantageous as it expands its portfolio of natural gas power plants. These terms include “foundation customer status”, which would prioritize the Company’s LNG processing requirements, availability guarantees of up to 97%, and a fixed and essentially viable pricing mechanism for 20 years. The Company has also negotiated for the planned Ilijan LNG Terminal to be accorded “priority project status” by AG&P over AG&P’s other projects, which will help ensure supply of natural gas to the Ilijan Power Plant beyond its IPPA.

The company believes that its existing and planned natural gas power plant capacities serve as an anchor to its further diversification into clean power technologies and provide a strong foothold for the growth of natural gas power in the Philippines. The company, through its subsidiary SPPC expects to become the owner and operator of the Ilijan Power Plant pursuant to the terms of its IPPA agreement. When the planned 1,313.1 MW Ilijan Expansion Plant is completed, the company is expected to have in operation 2,050 MW of natural gas power plants requiring the equivalent of about 1.2 million tons of LNG per annum or approximately one to two full load LNG carriers per month, which LNG can be sourced from the global market. In view of its existing downstream PSAs including its Meralco contracts, the company believes that this volume requirement is significant and firm, and would allow the company to competitively negotiate for its LNG supply. This could in turn create further operational flexibilities and reduce its downstream electricity tariffs. The Company has agreed on terms to secure the long-term supply of LNG commencing in June 2022. The terms provide for essentially viable and fixed pricing and allow for flexible delivery, including scheduling the delivery of LNG in line with downstream requirements aligned with the relevant PSA.

The company believes that currently, the constructive environment for LNG-related initiatives provides a viable path for the sustainable growth of its portfolio. The company expects these factors to favorably impact the cost of generating electricity from natural gas and allow it to compete with other baseload capacities, particularly coal. In the past, the company viewed the approximate ₱1.1/kwh differential of LNG fuel costs versus comparable coal technologies costs (based on 2018 average Newcastle and JKM fuel prices) as a major hurdle for the growth of natural gas-fired power generation. The decline in LNG prices in the market has narrowed this differential to ₱0.30/kwh based on the prices in September 2020. The company believes that this price differential may narrow further in view of current market conditions.

***To be a leading player in the ancillary reserve market and renewable energy initiatives through strategic establishment of battery energy storage systems across the Philippines***

SMC Global Power believes that it has a strong competitive advantage on BESS as ancillary services provider and plans to leverage on its experience operating the Masinloc BESS, the first of its kind in the Philippines, and become a leading BESS player in the Philippines by expanding its portfolio of BESS projects to about 1,000 MWh, 490 MWh of which is expected to be substantially complete in 2020 and the first quarter of 2021 and the remaining 510 MWh in 2021. In addition, of the planned 1,000 MWh, 720 MWh is expected to be located in Luzon, 190 MWh in Visayas and 90 MWh in Mindanao. Furthermore, the company has acquired ownership or has entered into agreements with rights of access or possession of 31 sites which are in advanced stages of development. NGCP has issued 25 system impact studies and 24 facility studies relating to these projects. In addition, 31 registration certificates have been issued by the BOI. As part of its plan to expand its portfolio of BESS projects, the company has entered into agreements with its EPC contractors, Fluence, ABB and Wartsila. Notably, Fluence and ABB have agreed to provide their services exclusively to the company in the Philippines, while Wartsila has agreed to exclusively act as EPC contractor in selected sites in the Philippines.

Integral to this expansion plan is the strategic locations of BESS facilities across Luzon, Visayas and Mindanao. The company has identified key locations where there are power quality problems or renewable energy projects and plans to install facilities in close proximity to the substations of the grid. For example, the Kabankalan BESS is located in Negros Island in the Visayas region. Negros has a demand of 360 MW, but majority of the capacity in the island comes from solar plants with a total capacity of 330 MW. In particular, the company has identified the area next to Kabankalan substation, as an ideal location for the BESS project.

The company believes that given the increasing entry of renewable energy sources, which by their nature are susceptible to inconsistent and sometimes unreliable output, coupled with the sustained growth of electricity

demand over the medium to long term, the market for reserve power and ancillary services will grow significantly. For example, the Masinloc BESS currently provides intra-hour instantaneous frequency regulating reserves to the grid, which helps maintain the grid frequency, or the balance between supply and demand in the electricity networks. Compared to other technologies, BESS provide frequency regulation reserves by charging and discharging from and to the grid, effectively doubling its ability to regulate grid frequencies.

BESS can complement renewable technologies, such as solar and wind, by compensating for sudden drops in generation of these plants due to natural phenomena, or by storing energy from these renewable sources for use during those periods where energy demand from the grid is highest. As such, BESS can support and complement the entry of renewable energy projects. As such, SMC Global Power also envisions maximizing the sites of future BESS projects by evaluating the possibility of establishing renewable technologies such as solar and wind (based on the availability of the resource for the area) alongside the planned BESS facilities. Such integrated renewable energy sources and BESS facilities are expected to provide clean, reliable, and resilient sources of energy and reserves to the grid.

In addition to supporting the entry of renewable energy, the company plans to develop a variety of battery applications in partnership with leading battery developers in the world. These include the provision of power quality improvement, peak-shaving, energy aggregation, network upgrade deferral, black start, microgrid application, and other ancillary services, such as reactive power support and contingency reserves.

***Continue to grow its power portfolio through the development of greenfield power projects and acquisition of power generation capacity in line with regulatory and infrastructure developments***

SMC Global Power intends to utilize its strong platform, extensive relationships and experienced management team to address the growing demand for power in the Philippines. SMC Global Power plans to continue its strategic development of greenfield power projects in parallel with its plan to acquire existing power generation capacity. The company balances the need for reliable and cost-efficient operations with environmental performance, and views clean coal technologies and LNG power plants as viable and sustainable options for its greenfield power projects.

In addition to its strategy to grow its power portfolio, SMC Global Power is focused on further investments in battery technology to add to the existing 10 MWh Masinloc BESS and the 20 MWh Kabankalan BESS. SMC Global Power also actively seeks to identify and pursue renewable energy investments such as hydroelectric power and solar power projects, subject to the outcome of viability and feasibility analyses. This is in line with SMC Global Power's objective to operate in an environmentally-responsible manner, while taking into consideration energy security and affordability to its consumers.

SMC Global Power seeks to capitalize on regulatory and infrastructure developments by scheduling the construction of greenfield power projects to coincide with the planned improvements in the interconnectivity of the Luzon Grid and Visayas Grid, as well as the eventual interconnectivity and implementation of WESM in Mindanao. In addition, SMC Global Power seeks to maintain the cost competitiveness of these new projects by strategically locating them in high-demand areas and in areas with the closest proximity to the grid. SMC Global Power is considering the further expansion of its power portfolio of new capacity nationwide through greenfield power plants over the next few years, depending on market demand. SMC Global Power plans to carry out the expansion of its power portfolio in phases across Luzon, Visayas and Mindanao. SMC Global Power is confident from its experience in building the Limay and Davao Greenfield Power Plants that it will be able to build new cost competitive plants.

***Vertically integrate complementary businesses in order to diversify its energy portfolio***

SMC Global Power continues to expand into businesses along the power sector value chain that complement its current power generation business. SMC Global Power has obtained RES licenses, through SMELC, SCPC and MPPCL, to expand its customer base and diversify its sales. With the open access and retail competition fully implemented, the RES licenses allow SMC Global Power to enter into retail electricity supply agreements with contestable customers. In addition, SMC Global Power has invested in distribution assets, namely Olongapo Electricity Distribution Corp. ("OEDC") and APEC, which create a competitive advantage through integrated generation and distribution operations.

Furthermore, depending on the prevailing global coal prices and the related logistical costs, SMC Global Power could initiate coal exploration, development and production rights over approximately 17,000 hectares of land in

Mindanao held through SMEC and its subsidiaries. SMC Global Power could develop these assets, which could potentially provide a significant additional source of coal fuel for its planned and existing greenfield power plants. SMC Global Power believes that the successful integration of viable coal mining operations into its power generation business could provide it with an additional competitive advantage over its competitors in the local power industry.

***Continue to pursue and develop measures to reduce emissions and operate power plants within and below applicable environmental compliance standards***

SMC Global Power continuously supervises, controls and improves processes in the power plants it owns and operates to ensure that regulated emissions from operations are within and below applicable environmental compliance standards. With the addition of its BESS capacities and planned LNG generation capacities, the Company anticipates improvements in its emissions performance, including carbon emissions intensity, on a portfolio basis. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards.

With its current mix of greenfield power projects, the company anticipates to significantly reduce the proportion of power generated from traditional pulverized coal technologies in its portfolio by 2024 as it transitions towards high growth, low emission, viable frontier technologies, such as its 1,000 MWh BESS projects and LNG initiatives. The Company expects this to result in the proportion of power generated from pulverized coal technologies to decrease from 36% to 22% by 2024.

***Leverage operational synergies with SMC group of companies***

SMC Global Power creates operational synergies within and among its subsidiaries by performing key management functions at the holding company level under management agreements. Key management functions include sales and marketing, energy trading, finance, legal, human resources, and billing and settlement. This allows all the subsidiaries to benefit from the wealth of experience of the management team of SMC Global Power, while optimizing initiatives at a portfolio level. SMC Global Power also intends to establish customer relationships with the other subsidiaries and affiliates of SMC for the sale and supply of power. In addition, SMC Global Power, through its subsidiaries, Daguma Agro, Bonanza Energy and Sultan Energy, owns various coal properties that it may develop as a hedge against international coal price fluctuations.

**SMC Global Power Portfolio**

***Sual Power Plant***

The Sual Power Plant is a 2 x 647 MW coal-fired thermal power plant located in Sual, Pangasinan on the Lingayen Gulf that commenced commercial operations in October 1999. It is the largest coal-fired thermal power plant in the Philippines in terms of installed capacity. The Sual Power Plant was built by CEPA Pangasinan Electric Limited pursuant to an ECA with NPC under a 25-year Build-Operate-Transfer (“BOT”) scheme that expires on October 24, 2024. In 2007, TeaM Energy, a joint venture between Marubeni Corporation and Tokyo Electric Power Corporation, acquired the Sual Power Plant.

On September 1, 2009, SMEC, was declared the winning bidder and received the notice of award for the IPPA for the Sual Power Plant. On November 6, 2009, SMEC assumed the administration of the capacity of the Sual Power Plant in accordance with the provisions of the Sual IPPA Agreement.

***Sual IPPA***

SMC Global Power, through its wholly-owned subsidiary, SMEC, has the contractual right to manage, control, trade, sell or otherwise deal in up to 1,000 MW of the generation capacity of the Sual Power Plant pursuant to the Sual IPPA Agreement. TeaM (Philippines) Energy Corporation, an affiliate of TeaM Energy, is allowed to sell the remaining balance of 200 MW. Accordingly, for purposes of this Prospectus, the contracted capacity of the Sual Power Plant is 1,000 MW.

SMEC must supply and deliver, at its own cost, the fuel that is necessary for the power plant to generate the power that SMEC requires TeaM Energy to produce. TeaM Energy is responsible for supplying fuel at its own cost to the Sual Power Plant to produce power in excess of the dispatch instructions of SMEC.

SMEC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee.

#### *Power Offtakers*

The capacity of Unit 1 of the Sual Power Plant is fully contracted to (i) Meralco (DU) under a long-term offtake agreement which expired in December 2019 but was replaced by a new contract, and (ii) Meralco (RES) under a long-term offtake agreement expiring in 2024, subject to extension upon mutual agreement by the parties. Meanwhile, the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, directly connected customers and third-party RES under existing PSCs. In September 2019, Meralco conducted a competitive selection process for its power supply, in accordance with the DOE CSP Policy. The Sual Power Plant was awarded a contract to supply 330 MW for a period of ten (10) years.

For energy-based contracts entered into by SMEC directly with offtakers on a bilateral basis, pricing is based on a reasonable return over the cost structure of SMEC.

For capacity-based contracts, pricing is based on a fixed and variable payment. The fixed payment represents the monthly fixed payments to PSALM and fixed operating and maintenance expenses. The variable payment represents the energy fee, fuel, and variable operating and maintenance expense.

#### *Fuel Supply*

SMEC has an existing coal supply agreement with PT Kaltim Prima Coal (“**PT KPC**”), Vitol Asia Pte. Ltd., and PT Trubaindo which will ensure a steady supply of coal for SMEC. For 2019, PT KPC supplied 15 panamax shipments. KPC is expected to supply 12 panamax shipments in 2021. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by PT KPC. For the year ended December 31, 2020, PT KPC supplied 11 panamax shipments to SMEC. SMEC also has other coal supply contracts with other suppliers.

#### *Operations and Maintenance*

The Sual Power Plant is operated by TeaM Energy, the successor-in-interest of CEPA Pangasinan Electric Limited. Under the Sual ECA, TeaM Energy is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Sual Power Plant. TeaM Energy is required to use its best endeavors to ensure that the Sual Power Plant is in good operating condition and capable of converting fuel supplied by SMEC under the Sual IPPA Agreement, into electricity in a safe and reliable manner.

#### *Ilijan Power Plant*

The Ilijan Power Plant commenced commercial operations on June 5, 2002, and is located on a 60-acre site at Arenas Point, Barangay Ilijan, Batangas City. The Ilijan Power Plant was constructed and is owned by KEPCO Ilijan Corporation (“**KEILCO**”) pursuant to a 20-year ECA with NPC (“**Ilijan ECA**”) under a BOT scheme that expires on June 4, 2022. The Ilijan Power Plant consists of two blocks with a rated capacity of 600 MW each.

NPC/PSALM supplies natural gas to the Ilijan Power Plant from the Malampaya gas field in Palawan under a gas supply agreement with Shell Exploration Philippines BV. The Ilijan Power Plant can also run on diesel oil stored on-site.

On April 16, 2010, SMC successfully bid for the appointment to be the IPP Administrator for the Ilijan Power Plant and received a notice of award on May 5, 2010. On June 10, 2010, SMC and SPPC, entered into an assignment agreement with assumption of obligations whereby SMC assigned all of its rights and obligations with respect to the Ilijan Power Plant to SPPC. SPPC assumed administration of the Ilijan Power Plant on June 26, 2010, in accordance with the Ilijan IPPA Agreement.

#### *Ilijan IPPA*

SMC Global Power, through its wholly-owned subsidiary, SPPC, has the contractual right to manage, control, trade, sell or otherwise deal in the generation capacity of the Ilijan Power Plant pursuant to the Ilijan IPPA

Agreement. Although the installed capacity of the Ilijan Power Plant totals 1,271 MW, ERC records attribute to SPPC a capacity of 1,200 MW for the Ilijan Power Plant. Accordingly, for purposes of this Prospectus, the contracted capacity of the Ilijan Power Plant is referred to as 1,200 MW.

Under the Ilijan ECA, NPC/PSALM is required to deliver and supply to KEILCO the fuel necessary to operate the Ilijan Power Plant. If natural gas is unavailable, SMC Global Power, through SPPC, may require KEILCO to run the Ilijan Power Plant using diesel fuel. NPC/PSALM remains responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant.

SPPC must pay fixed monthly payments comprising both a U.S. dollar and Peso component. In addition, SPPC must pay monthly generation payments comprising a “must pay” amount for electricity sold up to a given volume (the “**Must Pay Volume**”) and a variable amount for electricity sold in excess of the Must Pay Volume.

#### *Power Offtakers*

The entire capacity of the Ilijan Power Plant is contracted to Meralco under a long-term power supply agreement which expired in December 2019. In September 2019, Meralco conducted a competitive selection process for its power supply, in accordance with the DOE CSP Policy. The Ilijan Power Plant was awarded two offtake contracts to supply an aggregate of 960 MW, of which 670 MW is contracted for ten (10) years while the remaining 290 MW is contracted for five (5) years.

In the years ended December 31, 2018, 2019 and 2020, 86%, 87% and 93%, respectively, of the volume of power sold from the Ilijan Power Plant were derived from sales made under offtake agreements. In the years ended December 31 2018, 2019 and 2020, 14%, 13% and 7% of the volume of power sold from the Ilijan Power Plant, respectively, were derived from sales made through the WESM.

#### *Fuel Supply*

Under the Ilijan IPPA Agreement, NPC is responsible for securing the natural gas and diesel fuel supply to the Ilijan Power Plant. Pursuant to a fuel supply and management agreement among Shell Exploration B.V., Occidental Philippines, Inc., and NPC, NPC supplies natural gas to the Ilijan Power Plant through a 480-km undersea pipeline from the Camago-Malampaya field in Palawan to the Shell Refinery in Tabangao. From there, the natural gas is transported through a 16-inch diameter onshore pipeline running 15 km to the power plant.

#### *Operations and Maintenance*

KEILCO is responsible for the operations and maintenance of the Ilijan Power Plant for 20 years from June 2002. Under the Ilijan ECA, KEILCO is required to operate the Ilijan Power Plant pursuant to certain operating criteria and guidelines, governing the output of 1,200 MW guaranteed contracted capacity, baseload operation, and spinning reserve capability. Under the Ilijan ECA, KEILCO is responsible, at its own cost, for the management, operation, maintenance, including the supply of consumables and spare parts, and the repair of the Ilijan Power Plant.

#### *San Roque Power Plant*

The 345 MW San Roque Power Plant in San Manuel, Pangasinan, commenced operations on May 1, 2003, and is a peaking plant that was constructed by a consortium composed of Marubeni Corporation, Sithe Philippines Holdings, Ltd., and Italian-Thai Development Public Company Limited (the “**Consortium**”) pursuant to a power purchase agreement with NPC under a BOT scheme (the “**San Roque PPA**”).

The San Roque Power Plant utilizes the Agno River for peaking power, irrigation, flood control and water quality improvement for the surrounding region and comprises three power generation units of 115 MW each. The San Roque Power Plant provides an annual energy generation of 865 GWh from the 345 MW hydroelectric power plant, irrigates approximately 34,450 hectares of agricultural land, stores water that would otherwise flood the Pangasinan plains, and improves water quality of the Agno River which, otherwise, would pollute the downstream rivers.

On December 15, 2009, SPDC, a wholly-owned subsidiary of SMC Global Power, successfully bid for the appointment to be the IPPA for the San Roque Power Plant and received a notice of award on December 28, 2009. SPDC assumed administration of the San Roque Power Plant on January 26, 2010 in accordance with the

IPPA Agreement with PSALM (the “**San Roque IPPA Agreement**”). PSALM remains responsible under the San Roque PPA to remunerate the IPP of the San Roque Power Plant for the electricity it produces.

#### *San Roque IPPA*

Under the San Roque IPPA Agreement, SPDC has the right to manage, control, trade, sell or otherwise deal in the electrical generation capacity of the San Roque Power Plant, while NPC, which owns and operates the dam and related facilities thereof, obtained and maintains water rights necessary for the testing and operation of the power plant. SPDC is required to assist PSALM so that the San Roque Power Plant can draw water from the Agno River required by the power plant and necessary for it to generate the electricity required to be produced under the San Roque PPA of NPC with San Roque Power Corporation (“**SRPC**”).

While the contracted capacity of SPDC is 345 MW, it may generate up to 435 MW depending on the water level and inflow to the San Roque reservoir. Accordingly, for purposes of this Prospectus, the contracted capacity of the San Roque Power Plant is referred to as 345 MW.

The San Roque Power Plant is a peaking plant. Under the terms of the San Roque PPA, power and energy are delivered to SPDC at the delivery point (the high voltage side of the step-up transformers) located at the perimeter fence of the San Roque Power Plant site. SPDC is responsible for contracting with NGCP to wheel power from the delivery point.

The San Roque PPA requires NPC to take-or-pay for a minimum amount of power from the San Roque Power Plant. The minimum amount required increases from 85 MW through April 2007, 95 MW from May 2007 through April 2013, 110 MW from May 2013 through April 2017 and 115 MW from May 2017 through April 2028. Under the San Roque IPPA Agreement, SPDC is contractually obligated to purchase the minimum amount of power that NPC is obligated to take-or-pay for under the San Roque PPA.

SPDC pays PSALM a monthly fee that consists of a fixed payment and a variable energy fee. The fixed payment consists of agreed amounts (in U.S. dollars and Pesos) for the applicable month as set out in the San Roque IPPA Agreement. The specific amount of the fixed monthly payments under the San Roque IPPA Agreement increases over the life of the agreement, and the amounts and timing of such increases are specified in a schedule to the agreement. In any month that the San Roque Power Plant is unable to produce power for at least three (3) non-delivering days, these fixed amounts are reduced in proportion to the number of non-delivering days in that month. A non-delivering day means a 24-hour period during which the San Roque Power Plant is unable to produce power for reasons specified in the San Roque IPPA Agreement, including unplanned outages arising from causes not attributable to SPDC. No reduction in the fixed payment is made if the San Roque Power Plant is unable to produce power due to planned outages.

The energy fee is computed based on the actual energy delivered by the San Roque Power Plant at a fixed price of ₱1.30 per KWh. The actual energy delivered and dispatched by the San Roque Power Plant at any given time is dependent on the water levels in the reservoir and downstream irrigation requirements at that time.

#### *Fuel Supply and Water Rights*

The generated output energy of the San Roque Power Plant is limited by the “Irrigation Diversion Requirements” set by the NIA of the Philippines. Water allocation is usually dictated by a rule curve that is derived from historical data of river flows and water demands. A rule curve shows the minimum water level requirement in the reservoir at a specific time to meet the needs for which the reservoir is designed. The rule curve must generally be followed, except during periods of extreme drought and when public interest requires.

Generally, the output energy of San Roque Power Plant is high during planting seasons which cover the months of December through April (dry planting season) and July through September (wet planting season). The water releases from the dam, and thus, energy generation, during the dry planting season is much higher due to the absence of rain. The water rights of NPC are used by the San Roque Power Plant, and NPC, until the date of transfer of the San Roque Power Plant to NPC (or SPDC, as the case may be), must obtain such renewals or extensions as may be required to maintain the water rights in full force and effect at all times. NPC derives its water rights from a permit granted by the NWRB.

#### *Operations and Maintenance*

SRPC, the successor-in-interest of the Consortium, is responsible for the operations and maintenance of the San Roque Power Plant for 25 years effective May 1, 2003. SRPC is owned by Marubeni Corporation and Kansai Electric Power Company Ltd. Under the San Roque PPA, SRPC is responsible for the management, operation, maintenance and repair of the San Roque Power Plant at its own cost until transfer to NPC or SPDC, as the case may be. As operator, SRPC is entitled to conduct the normal inspection, regular maintenance, repair and overhaul for a period of 15 days for each unit comprising the San Roque Power Plant. In addition, SRPC has the right to enter into contracts for the supply of materials and services, including contracts with NPC; appoint and remove consultants and professional advisers; purchase replacement equipment; appoint, organize and direct staff; manage and supervise the power plant; establish and maintain regular inspection, maintenance and overhaul procedures; and otherwise run the power plant within the operating parameters set out in the San Roque PPA.

### ***Angat Hydroelectric Power Plant***

The AHEPP is an operating hydroelectric power plant located at the Angat reservoir in San Lorenzo, Norzagaray, Bulacan, approximately 58 km northeast of Metro Manila. The AHEPP was privatized through an asset purchase agreement between PSALM and K-Water. K-Water assigned its rights in favour of AHC, a joint venture between K-Water and PVEI.

The project has a total electricity generating capacity of 218 MW, comprised of four main units of 50 MW capacity each and three auxiliary units of 6 MW capacity each. The Main Units 1 and 2 were commissioned in 1967 and the Main Units 3 and 4 in 1968. The Auxiliary Units 1 and 2 were commissioned in 1967 and the Auxiliary Unit 3 in 1978. The Auxiliary Unit 3 was manufactured by Allis-Chalmers and Ebara and all the other units were manufactured by Toshiba Corporation of Japan. All units are run by the Francis-type turbines, which are the most commonly used model in hydroelectric power generation. In August 2018, AHC completed the rehabilitation of the Angat Dam and Dykes in accordance with the Operations and Maintenance Agreement with PSALM and NPC.

### ***Fuel Supply and Water Rights***

The AHEPP utilizes water resources of the Angat reservoir. The Angat reservoir is 35 km long and 3 km wide at its widest points and has surface area of 2,300 hectares and viable storage volume of 850 million cubic meters. The water discharged by the project is used for the following two purposes: (i) water discharged through Auxiliary Units and through the spillway that flows to the Ipo reservoir is used to supply 97.0% of the residential drinking water of Metro Manila; and (ii) water discharged through Main Units that flows downstream to the Bustos reservoir is utilized for irrigation purposes.

Water rights surrounding the AHEPP are co-owned and governed by the following entities, with its respective purposes, pursuant to the Water Code of the Philippines, Angat Reservoir Operation Rules issued and regulated by NWRB as implemented by a Memorandum of Agreement on the Angat Water Protocol between MWSS, NIA, AHC, PSALM, NPC and NWRB: (i) MWSS, for domestic water supply to Metro Manila; (ii) provincial government of Bulacan, for water supply in the Bulacan Province; (iii) NIA, for irrigation diversion requirements; and (iv) AHC (through a lease contract with KWPP Holdings Corporation (“KWPP”), for power generation.

### ***Power Offtakers***

AHC sells majority of its generated capacity to the WESM at the prevalent spot price, unless capacity is sold pursuant to bilateral contracts. The Main Units are operated as peaking units. The strategy for the Main Units is to allocate daily water release during peak hours. Auxiliary Units are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discrete optionality to choose the hour of allocation. AHC periodically enters into short-term power supply contracts for the capacity of its auxiliary units and continues to explore options to contract this capacity.

### ***Operations and Maintenance***

AHC undertakes the operation and maintenance of AHEPP. The operations and maintenance team consist of the local technical team who have been operating the AHEPP supported by technical experts seconded from K-water.

AHC has entered into technical services agreements with each of K-Water and PVEI to ensure that the appropriate level of technical and management support will be provided to support the operation and maintenance requirements of AHC.

### ***Limay Greenfield Power Plant***

The Limay Greenfield Power Plant owned by SMC Global Power through its subsidiary, SCPC, is a 4 x 150 MW CFB coal-fired power plant located in Limay, Bataan, which commenced construction in October 2013. Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant achieved commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively.

Mantech Power Dynamics Services Inc., a wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

#### ***Power Offtakers***

Units 1 and 2 of the Limay Greenfield Power Plant are fully contracted to various distribution utilities, electric cooperatives, directly connected and contestable customers, including facilities of SMC subsidiaries, under long-term offtake agreements mostly expiring in ten (10) years from effective date, subject to extension upon mutual agreement between the parties. Units 3 and 4 of the Limay Greenfield Power Plant are also contracted with distribution utilities, directly connected customers and contestable customers. For the year ended December 31, 2020, 98% of revenues were from bilateral contracts while the remaining 2% was attributable to revenue from WESM. SCPC was granted a RES license on August 24, 2016, which is valid until August 24, 2021. The RES license gave SCPC the ability to directly contract with contestable customers.

#### ***Fuel Supply***

SCPC has executed two long-term coal supply agreements with Bayan Resources TBK (“**Bayan**”) and PT KPC, with terms of until 2022 and five (5) years from effectivity date, respectively. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract, with an optional additional quantity of three shipments per year. PT KPC will supply four panamax shipments per year, with an option on the part of SCPC to add four more shipments per year upon prior notice. SCPC has also executed another long-term supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SCPC also has executed spot coal supply contracts with other suppliers.

### ***Davao Greenfield Power Plant***

The Davao Greenfield Power Plant owned by SMC Global Power through its subsidiary, SMCP, is a 2 x 150 MW CFB coal-fired power plant located in Malita, Davao Occidental, which commenced construction in September 2013. Units 1 and 2 of the Davao Greenfield Power Plant achieved commercial operations in July 2017 and February 2018, respectively.

Safetech Power Services Corp., a wholly-owned subsidiary of SMC Global Power, is responsible for the operation and maintenance of the plant.

#### ***Power Offtakers***

Units 1 and 2 of the Davao Greenfield Power Plant are substantially contracted to various distribution utilities, electric cooperatives and industrial customers under long-term offtake agreements mostly expiring in ten (10) years from effective date, subject to extension upon mutual agreement between the parties. For the year ended December 31, 2020, all revenues were from bilateral contracts.

#### ***Fuel Supply***

SMCP executed a long-term coal supply agreement with Bayan, with terms of until January 31, 2029. As base quantity, Bayan is required to supply five panamax shipments per year during the term of the contract. Each shipment shall comprise 65,000 metric tons +/- 10% vessel tolerance. Pricing under the coal supply agreement



will be subject to adjustment based on certain standards applicable to the quality or grade of the coal delivered by the supplier. SMCPC also has executed spot coal supply contracts with other suppliers.

### ***Masinloc Power Plant and Masinloc BESS***

The Masinloc Power Plant comprises 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plant located in Masinloc, Zambales, and is owned and operated by MPPCL. Units 1 and 2 of the Masinloc Power Plant commenced commercial operations in June 1998 and December 1998, respectively, and were originally developed and owned by NPC. Unit 3, which is a brownfield/expansion project within the Masinloc Power Plant, commenced commercial operations on September 26, 2020. In view of the delay in the commercial operations of Unit 3 (originally scheduled for April 2019), POSCO has offered the Company a reasonable amount as settlement for liquidated damages, subject to certain conditions, which the Company has accepted. The EPC contractors of Unit 3 of the Masinloc Power Plant are POSCO and Ventanas Philippine Construction. MPPCL also owns the Masinloc BESS.

The Masinloc BESS (10 MWh) is a pioneer grid-scale BESS in the Philippines and Southeast Asia and the largest BESS in the Philippines. The EPC Contractor for the Masinloc BESS is Fluence, which has installed 1,125 MW in BESS capacity in 95 projects across 20 countries and is a leading vendor for utility-scale energy storage systems, according to Navigant Research.

The Masinloc Power Plant and Masinloc BESS were acquired by SMC Global Power on March 20, 2018, SMC Global Power completed the acquisition of 51% and 49% equity interests in SMCGP Masin from AES Phil and Gen Plus B.V., respectively.

### ***Power Offtakers***

Units 1, 2, and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and contestable customers. For the six months ended December 31, 2020, 91% of revenues were from bilateral contracts while the remaining 9% was attributable to revenue from WESM. The RES license of MPPCL was renewed on June 27, 2016 and is valid until August 1, 2021. The Masinloc BESS provides regulating reserve ancillary services to the Luzon Grid under an ASPA with NGCP.

### ***Fuel Supply***

MPPCL has coal supply contracts with reputable international companies with durations ranging from six (6) months to three (3) years. All supplies are governed by a five-year master agreement, which terms apply for all contracts to be entered into between MPPCL and a coal supplier.

### **Distribution and Retail Services**

#### ***Albay Power and Energy Corp.***

On October 29, 2013, after an open and competitive bidding, SMC Global Power entered into a concession agreement for the operation and maintenance of ALECO, which is the franchise holder for the distribution of electricity in the province of Albay, Luzon. Under the concession agreement, there is no transfer of the franchise to operate the distribution system and the ownership of the distribution assets remains with ALECO. At the end of the concession period, the distribution system will be turned over back to ALECO. Under the concession agreement, SMC Global Power would pay a concession fee consisting of quarterly payments for the operating expenses of residual ALECO, and 50.0% of the net cash flow if the net cash flow is positive within five (5) years or earlier. SMC Global Power also paid for the severance pay of ALECO employees dismissed as a result of the concession agreement. SMC Global Power established APEC as its wholly-owned subsidiary, and in January 2014, SMC Global Power assigned all of its rights and obligations under the concession agreement to APEC, a wholly-owned subsidiary. On February 26, 2014, APEC assumed the role of SMC Global Power under the concession agreement.

### ***Retail Electric Supply***

SMC Global Power is pursuing downstream integration by capitalizing on changes in the Philippine regulatory structure to expand its sales of power to a broader range of customers, including retail customers. The three RES licenses issued to SMC Global Power, through SMELC, SCPC and MPPCL, have a term of five (5) years each

and are valid until August 20, 2021, August 24, 2021 and August 1, 2021, respectively. The RES licenses allow the relevant subsidiary of SMC Global Power to enter into RSCs with contestable customers and to expand its customer base. As of September 30, 2020, SMELC, SCPC and MPPCL supply an equivalent of 865 MW to various facilities of SMC subsidiaries and other contestable customers. SMC Global Power believes that it is one of the major players in the contestable market, supplying over 148 contestable customers as of September 30, 2020 based on data obtained from the ERC.

### ***Coal Investments***

Pursuant to its strategy of integrating viable complementary businesses to its power generation business, SMC Global Power, through SMEC and its subsidiaries, Bonanza Energy, Daguma Agro and Sultan Energy, acquired coal exploration, production and development rights over approximately 17,000 hectares of land in Mindanao. Depending on prevailing coal prices and the related logistical costs, SMC Global Power could develop these assets to provide a significant additional source of coal fuel for its power plants, but such assets remain in the preparatory stage of its mining activities, as of December 31, 2020. SMC Global Power continues to evaluate the viability of these assets.

Each of the Coal Operating Contracts (“COCs”) has a term of ten (10) years from the conversion date of the COC for development and production. The initial 10-year term of each COC may be extended for another 10-year period, and thereafter for a series of three-year periods not to exceed 12 years, in each case subject to agreement between the parties. Sultan Energy is in the process obtaining an extension from the DOE while Bonanza Energy have filed a request for a 10-year term extension.

### **Sales Strategy and Customers**

SMC Global Power seeks to sell substantially all of the power generated by its portfolio of power plants to offtakers, whether in the form of distribution utilities, electric cooperatives or contestable customers. For the year ended December 31, 2020, approximately 46% and 45% of consolidated sales volumes were to (i) Meralco and (ii) other distribution utilities, electric cooperatives, directly connected customers and contestable customers, respectively. Based on publicly available disclosures of Meralco, SMC Global Power believes that it is Meralco’s largest power supplier as of December 31, 2020, supplying approximately 23% of Meralco’s power purchases. Meralco is the largest distribution utility in the Philippines.

Currently, the entire capacity of the Ilijan Power Plant and Unit 1 of the Sual Power Plant are contracted under long-term offtake agreements with Meralco and its affiliates, while the capacity of Unit 2 of the Sual Power Plant is contracted to various distribution utilities, electric cooperatives, and industrial customers under existing offtake agreements. These agreements typically include take-or-pay provisions whereby a customer is required to pay for a minimum contracted amount of power, regardless of whether or not the customer takes delivery of the entire amount, with the result that revenue from these offtake agreements is relatively stable for the duration of the agreements.

If the generation output available to the subsidiaries of SMC Global Power from these plants exceeds the amount deliverable under their offtake agreements, such subsidiaries of SMC Global Power offer the excess power for sale through the WESM at the market clearing price. SMC Global Power believes that offtake agreements with distribution utilities and electric cooperatives, while subject to approval of the ERC, are relatively better in pricing compared to retail supply contracts with contestable customers. Units 1, 2 and 3 of the Masinloc Power Plant are substantially contracted through medium to long-term bilateral contracts with Meralco, electric cooperatives and industrial customers.

The power generation capacity of the San Roque Power Plant and the AHEPP at any given time depends on the water levels in the reservoir and downstream irrigation requirements. As such, these plants sell majority of their generated capacity to the WESM at the prevailing spot prices. The San Roque Power Plant and the Main Units of the AHEPP are operated as peaking units. Available water is used to generate power during peak hours when prices are higher.

The Auxiliary Units of AHEPP are operated as baseload units, as the water requirement from MWSS is continuous throughout the day, thus eliminating any discretion to choose the hour of allocation. AHC is exploring options to contract the capacity of its Auxiliary Units.

SMC Global Power plans to contract a substantial portion of the capacity of BESS projects to provide ancillary

services to the grid. It can also take advantage of arbitrage opportunities in the WESM, particularly during peak hours when prices may be more than double. BESS projects may also be contracted with other entities such as electric cooperatives or power plants.

In the years ended December 31, 2018, 2019 and 2020, approximately 85%, 93% and 92%, respectively, of consolidated volume of power sold by SMC Global Power were to customers pursuant to bilateral offtake agreements. Sales to Meralco accounted for approximately 44%, 49% and 46%, of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2018, 2019 and 2020. Sales through the WESM accounted for approximately 15%, 7% and 8% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2018, 2019 and 2020.

## Competition

SMC Global Power is one of the largest power companies in the Philippines. Based on the total installed generating capacities reported in the 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, as of December 31, 2020. Its main competitors are First Gen Corporation and the Aboitiz Group, which holds interests in Aboitiz Power Corporation and Hedcor, Inc., among others.

With the government committed to privatizing the majority of NPC-owned power generation facilities and the establishment of WESM, the generation facilities of SMC Global Power will face competition from other power generation plants that supply the grid during the privatization phase. SMC Global Power will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing for these activities. The performance of the Philippine economy and the potential for a shortfall in the Philippines' energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in the development of electric power generation projects within the Philippines. Accordingly, competition for and from new power projects may increase in line with the long-term economic growth in the Philippines.

## Customers

SMC Global Power sells power, through power supply agreements, either directly to customers (distribution utilities, electric cooperatives and industrial customers) or through the WESM.

|                             | For the year ended December 31, |                               |                      |                               |                      |                               |
|-----------------------------|---------------------------------|-------------------------------|----------------------|-------------------------------|----------------------|-------------------------------|
|                             | 2018                            |                               | 2019                 |                               | 2020                 |                               |
|                             | Volume Sold<br>(GWh)            | Revenue<br>(in millions<br>₱) | Volume Sold<br>(GWh) | Revenue<br>(in millions<br>₱) | Volume Sold<br>(GWh) | Revenue<br>(in millions<br>₱) |
| <b>Customers</b>            |                                 |                               |                      |                               |                      |                               |
| Meralco.....                | 10,518                          | 54,474                        | 13,816               | 62,795                        | 12,117               | 50,498                        |
| WESM.....                   | 3,590                           | 10,860                        | 1,979                | 8,167                         | 2,216                | 5,208                         |
| <b>Total Major</b>          |                                 |                               |                      |                               |                      |                               |
| Customers.....              | 14,108                          | 65,334                        | 15,795               | 70,962                        | 14,333               | 55,706                        |
| Others <sup>(1)</sup> ..... | 9,756                           | 54,769                        | 12,317               | 64,098                        | 11,783               | 59,323                        |
| <b>Total Sales</b> .....    | <u>23,864</u>                   | <u>120,103</u>                | <u>28,112</u>        | <u>135,060</u>                | <u>26,116</u>        | <u>115,029</u>                |

Note:

(1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

## Safety, Health and Environmental Regulation

Power operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations include the Philippine Clean Air Act of 1999 ("**Clean Air Act**"), the Philippine Clean Water Act of 2004 ("**Clean Water Act**"), Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990, and the DOLE Occupational Safety and Health Standards of 1989, as amended. Such legislation addresses, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials

and waste. It also regulates workplace conditions within power plants and employee exposure to hazardous substances. The Occupational Safety and Health Standard, meanwhile, was formulated to safeguard the workers' social and economic well-being, as well as their physical safety and health.

SMC Global Power complies for its company-owned generation plants, and it believes that the IPPs for each of the IPPA Power Plants managed by SMC Global Power comply, in all material respects with all applicable safety, health and environmental laws and regulations.

The Sual Power Plant received its Environmental and Management System Certificate (ISO 14001) in 2004, its Occupational Standard on Health Safety Certificate (ISO 18001) in 2007 and its Quality Management System Certificate (ISO 9001) in 2008. The same ISO certifications were received by Davao Greenfield Power Plant and Limay Greenfield Power Plant in 2017 and 2018, respectively, while the Masinloc Power Plant and the Masinloc BESS received an Environmental and Management System Certificate (ISO 14001) and Occupational Standard on Health Safety Certificate in 2014.

For each of its Greenfield power plants, SMC Global Power will comply with all applicable safety, health and environmental laws and regulations, including securing the necessary ECC in accordance with Philippine law.

SMC Global Power's coal-fired power plants have maintained levels of emission lower than the standards set by the DENR. The following table sets forth the level of nitrogen oxide ("NO<sub>x</sub>"), sulfur dioxide ("SO<sub>2</sub>") and particulate matter ("PM") emissions of the power plants owned and operated by SMC Global Power, as well as the applicable emission control standards, for the year ended December 31, 2020:

| Power Plant                       | NO <sub>x</sub> |          | SO <sub>x</sub> |          | PM                    |          |
|-----------------------------------|-----------------|----------|-----------------|----------|-----------------------|----------|
|                                   | Emission        | DENR     | Emission        | DENR     | Emission              | DENR     |
|                                   | level           | Standard | level           | Standard | level                 | Standard |
|                                   | (ppm)           |          | (ppm)           |          | (Mg/Nm <sup>3</sup> ) |          |
| Sual Power Plant* .....           | 187.1           | 732.0    | 329.1           | 524.0    | 12.8                  | 200.0    |
| Masinloc Power Plant.....         | 96.4            | 732.0    | 116.4           | 524.0    | 53.7                  | 200.0    |
| Limay Greenfield Power Plant..... | 70.8            | 487.0    | 57.5            | 245.0    | 7.4                   | 150.0    |
| Davao Greenfield Power Plant..... | 72.4            | 487.0    | 89.5            | 245.0    | 9.5                   | 150.0    |

\* Operated under IPPA Agreement

For its BESS sites, SMC Global Power is committed to ensuring the safety of its employees and the community and has designed measures such as a fire protection system, with a fire wall, automatic fire shutters, and sprinkler system, and a double wall system composed of the blast wall and fire wall, to add additional layers of safety.

In addition, coal mining in the Philippines is subject to environmental, health and safety laws, forestry laws and other legal requirements. These laws govern the discharge of substances into the air and water, the management and disposal of hazardous substances and wastes, site clean-up, groundwater quality and availability, plant and wildlife protection, reclamation and rehabilitation of mining properties after mining is completed and the restriction of open-pit mining activities in conserved forest areas.

Notwithstanding the foregoing, the discharge of chemicals, other hazardous substances and pollutants into the air, soil or water by the power plants owned or managed by SMC Global Power or the coal mines of SMC Global Power may give rise to liabilities to the Government and to local Government units where such facilities are located, or to third parties. In addition, SMC Global Power may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

Further, the adoption of new safety, health and environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that SMC Global Power make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its generating facilities at their current level, curtail power generation or take other actions that could have a material adverse effect on the financial condition, results of operations, and cash flow of SMC Global Power.

## Environmental Social Governance and Sustainability Initiatives

SMC Global Power, through the SMCGP Philippines Power Foundation Inc. (the “**SMC Global Power Foundation**”), has undertaken various projects and programs which is in line with the United Nations Sustainable Development Goals. The SMC Global Power Foundation is focused on four thrusts: health, education, economic empowerment and environmental stewardship. One of its major initiatives is the “747 Program” with the goal of planting seven million trees over seven years through a combination of reforestation initiatives, protected forest reserves, biochar production and mangrove rehabilitation. In addition, the SMC Global Power Foundation also has a strong focus on education with flagship initiatives such as scholarship programs prioritizing indigenous persons and youth from local communities where it operates. SMC Global Power also has an economic empowerment program called “Local Economy Acceleration and Progress (LEAP)” that creates job opportunities and fosters community-driven entrepreneurship, among others. Lastly, there are several health programs that look after the well-being of their relevant communities.

In addition, SMC Global Power has completed its first sustainability report using the Global Reporting Initiative as a framework, which was published in July 2020. This demonstrates its commitment and awareness of the importance of sustainability and social responsibility to its stakeholders.

## Insurance

Pursuant to the IPPA arrangements of SMC Global Power, the IPPs associated with the power plants for which SMC Global Power is the IPPA are responsible for maintaining insurance for all of the facilities, equipment and infrastructure for those power plants, with the exception of the dam and spillway of the San Roque Power Plant, for which NPC is obligated to maintain insurance. SMC Global Power is not a beneficiary of any of these insurance agreements. SMC Global Power employs risk management for purposes of analysing the risks faced by its business in the determining the appropriate insurance policies.

SMC Global Power does not have business interruption insurance for its IPPA Power Plants and believes that there is no business interruption insurance available for the IPPA business model under which SMC Global Power is currently operating. SMC Global Power has procured all the necessary policies to cover all insurable risks for the ownership and operation of the Limay Greenfield Power Plant, Davao Greenfield Power Plant and Masinloc Power Plant.

## Intellectual Property

SMC Global Power owns exclusive rights to its corporate name. Management believes that the business of SMC Global Power as a whole is not materially dependent on any trademark or on any other intellectual property.

## INFRASTRUCTURE BUSINESS

SMC has made investments in the infrastructure industry in the Philippines, through its wholly-owned subsidiary, SMHC, consisting of concessions for toll roads, airports, a seaport, bulk water supply and a mass rail transit system.

Certain details of these investments are set forth in the table below:

|                                    | <b>% SMC<br/>Effective<br/>Ownership Interest</b> | <b>Expected Project<br/>Cost<br/>(in millions)</b> | <b>Concession Length</b> |
|------------------------------------|---------------------------------------------------|----------------------------------------------------|--------------------------|
| <b>Concession</b>                  |                                                   |                                                    |                          |
| TPLEX.....                         | 70.11% <sup>(1)</sup>                             | ₱29,843                                            | 35 years                 |
| Boracay Airport.....               | 99.80% <sup>(2)</sup>                             | ₱13,782                                            | 25 years                 |
| MRT-7.....                         | 100.00% <sup>(3)</sup>                            | ₱84,700 <sup>(3)</sup>                             | 25 years                 |
| SLEX Toll Road (TR) 1, 2, & 3..... | 76.00% <sup>(4)</sup>                             | Completed                                          | 25 years                 |
| SLEX TR4.....                      | 76.00% <sup>(4)</sup>                             | ₱26,100 <sup>(4)</sup>                             | 25 years                 |
| Skyway Stage 1 & 2.....            | 83.45% <sup>(5)</sup>                             | Completed                                          | 25 years                 |
| Skyway Stage 3.....                | 85.50% <sup>(6)</sup>                             | ₱76,014                                            | 30 years                 |
| Skyway Stage 4.....                | 77.93% <sup>(7)</sup>                             | ₱49,880                                            | 30 years                 |
| NAIAX.....                         | 100.00%                                           | Completed                                          | 30 years                 |

|                                            |                         |           |          |
|--------------------------------------------|-------------------------|-----------|----------|
| Star Tollway .....                         | 100.00% <sup>(8)</sup>  | Completed | 30 years |
| Manila North Harbor .....                  | 50.00% <sup>(9)</sup>   | ₱14,894   | 30 years |
| Bulacan Bulk Water Supply Stage 1 & 2..... | 90.00% <sup>(10)</sup>  | Completed | 30 years |
| Manila International Airport.....          | 100.00% <sup>(11)</sup> | ₱735,634  | 50 years |
| SLEX TR5.....                              | 90.00% <sup>(12)</sup>  | ₱26,381   | 30 years |
| PAREX.....                                 | 90.00% <sup>(13)</sup>  | ₱95,413   | 30 years |

*Notes:*

- (1) Ownership through SMC TPLEX Corporation (formerly Private Infra Dev Corp.), through RTI through SMHC equity interest.
- (2) Ownership through TADHC, through SMHC equity interest.
- (3) Ownership through SMC Mass Rail Transit 7 through SMHC equity interest. Project cost at USD1.540Billion.
- (4) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to SMC SLEX Holdings Company, Inc. and 80% SMC SLEX Holdings Company, Inc. to SMCSI. All major capex has been completed prior to equity acquisition except for TR4.
- (5) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to SMC Tollways Corporation and 87.84% SMC Tollways Corporation to SMCSC. All major capex has been completed prior to equity acquisition.
- (6) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to S3HC and 90% S3HC to SMCSS3C.
- (7) Ownership through SMHC equity interest: 100% SMHC to SMCI, 77.93% SMCI to SMCSS4C.
- (8) Ownership through SMHC equity interest: 100% SMHC to Sleep Coop, 40% Sleep Coop to CTCII, 100% CTCII to SIDC and 100% SMHC to Wiselink, 60% Wiselink to CTCII and 100% CTCII to SIDC.
- (9) Ownership through SMHC common equity interest: 50.00% SMHC to MNHPI.
- (10) Ownership through SMHC common equity interest: 90% SMHC to LCWDC.
- (11) Ownership through SMHC equity interest: 100% SMHC to SMAI
- (12) Ownership through SMHC equity interest: 90% SMHC to SLEX TR5
- (13) Ownership through SMHC equity interest: 90% SMHC to PAREX

For each of the years ended December 31, 2018, 2019 and 2020, the infrastructure business had revenues of ₱24,530 million, ₱23,406 million and ₱ 14,565 million; gross profit of ₱14,893 million, ₱14,730 million and ₱5,989 million, and net income of ₱6,162 million, ₱6,038 million, (₱2,185) million, respectively.

Selected financial highlights for the infrastructure business are provided below for the periods indicated:

|                                                             | For the years ended<br>December 31, |          |          |
|-------------------------------------------------------------|-------------------------------------|----------|----------|
|                                                             | 2018                                | 2019     | 2020     |
|                                                             | (in millions, except percentages)   |          |          |
| Sales .....                                                 | ₱ 24,530                            | ₱ 23,406 | ₱ 14,565 |
| Gross profit .....                                          | 14,893                              | 14,730   | 5,989    |
| Gross profit margin <sup>(1)</sup> .....                    | 61.0%                               | 63.0%    | 41%      |
| EBITDA <sup>(2)</sup> .....                                 | 17,423                              | 17,177   | 2,444    |
| EBITDA margin <sup>(3)</sup> .....                          | 71.0%                               | 73.0%    | 17%      |
| Net income (loss) before tax .....                          | 8,899                               | 8,597    | (1,003)  |
| Net income (loss) before tax<br>margin <sup>(4)</sup> ..... | 36.0%                               | 37.0%    | -7%      |

*Notes:*

- (1) Gross Profit Margin is calculated by sales less cost of sales divided by sales.
- (2) EBITDA is calculated as net income before income tax expense, net financing charges (interest income net of interest expense), extraordinary or exceptional items, foreign exchange losses (gains), marked-to-market currency losses (gains), and depreciation and amortization and impairment losses.
- (3) EBITDA margin is calculated by EBITDA divided by sales.
- (4) Net income before tax margin is calculated by net income before income tax divided by sales..

## Strengths and Strategies

### Strengths

#### *Project portfolio vital to the growth of the Philippine economy*

SMHC has ownership interests in various companies that hold concession rights in infrastructure projects, which are vital to the development and growth of the Philippine economy. These include operating tollways, such as the SLEX TR 1, 2 & 3, Skyway Stages 1,2 & 3, STAR tollway, TPLEX and NAIAX, serving as the main thoroughfares for motorists. The Skyway Stage 3 has been opened to motorists while awaiting formal toll operation permit from the TRB. For example, according to the Philippine Statistics Authority data, in 2019, the gross regional domestic product of the Southern Luzon Region is 4.5% which accounts for 14.6% of the total gross domestic product of the country. The SLEX is a key gateway through which business and commerce are transported and conducted throughout this region. SMHC is also currently progressing the development of the following projects: Boracay Airport, Manila North Harbor, Skyway Stage4, SLEX TR4, MRT-7, and the Manila International Airport, which are projected to further support the growth in the areas they will serve.

The decrease in traffic volume in 2020 was caused by the quarantine restrictions due to the COVID19. As the Philippine economy continues to bounce back with easing of the quarantine restrictions, SMHC believes that there will be an upward trend on traffic volume until eventually hitting pre-pandemic numbers.

|                            | For the years ended<br>December 31,                  |         |         |
|----------------------------|------------------------------------------------------|---------|---------|
|                            | 2018                                                 | 2019    | 2020    |
|                            | Annual Average Daily Traffic ("AADT") <sup>(1)</sup> |         |         |
| SLEX TR 1, 2 & 3 .....     | 355,516                                              | 366,189 | 274,931 |
| Skyway Stages 1 & 2.....   | 251,361                                              | 257,052 | 167,686 |
| STAR.....                  | 57,472                                               | 62,453  | 50,441  |
| TPLEX <sup>(2)</sup> ..... | 22,272                                               | 24,370  | 14,757  |
| NAIAX .....                | 97,561                                               | 112,708 | 44,184  |

*Notes:*

- (1) AADT refers to the average number of vehicles per day counted per exit in a toll road. Data is sourced through the Accounts Management System of each of the toll roads and are monitored by the Toll Monitoring Department of SMHC.
- (2) These reflects AADT for partial operations of Section 1 in 2016, Sections 1 and 2 in 2017 and Sections 1, 2 and 3A for 2018 until July 14, 2020. The remaining section 3B (with two exits – Sison and Rosario) was opened on July 15, 2020.

#### *Highly experienced technical team*

The infrastructure business is composed of a highly experienced and qualified technical team, with extensive knowledge in the Philippine infrastructure industry. In addition, the technical team has gained further expertise in the regulatory, business development and financial aspect of the infrastructure business during construction and operations of various infrastructure projects. Strong professional relationships have also been developed with key industry participants, such as DOTr, Department of Public Works and Highways of the Philippines ("DPWH"), Civil Aviation Authority of the Philippines ("CAAP"), Philippine National Construction Company ("PNCC") and TRB as well as reputable construction contractors such as D.M. Consunji, Inc., EEI Corporation and Matière S.A.S.

#### *Strong principal shareholder*

With SMC being one of the largest and most diversified conglomerates in the Philippines, the infrastructure business believes that it can increase its leverage and bargaining ability that is vital for the implementation and completion of its projects. SMC has continuously provided the necessary financial support to the capital-intensive infrastructure business.

Under the stewardship of SMC, the infrastructure business has become one of the major players in the industry in a relatively short period of time. On August 14, 2019, SMC, through SMAI, was awarded the Manila International Airport project when no bidders participated in the Swiss Challenge. The Concession Agreement

for the project was signed on September 18, 2019. SMHC believes it will continue to benefit from the extensive business networks of SMC, its in-depth understanding of the Philippine economy, and the expertise of its senior managers to identify and capitalize on growth opportunities.

## Strategies

### *Focusing on the improvement of infrastructure in the Philippines*

SMHC believes there are significant opportunities in building and participating in infrastructure projects in the country that has historically under-invested in infrastructure. These infrastructure projects are expected to support and contribute to the continued growth of the Philippine economy. Thus, SMHC believes its long-term concessions and obtaining new long-term concessions from Government's infrastructure projects in the pipeline will provide strong and stable cash flows.

### *Potential to extract synergies across businesses*

SMC's push for infrastructure development supports other businesses of SMC. These capital-intensive infrastructure projects propel businesses like cement, oil and energy especially during the construction stage. Completed or operating infrastructure projects on the other hand create an ecosystem for other businesses to operate more efficiently and enhance its strong distribution network.

Areas and projects being developed by the infrastructure business present opportunities for the other businesses of SMC. For example, the TPLEX, Boracay Airport, MRT-7 and other road projects are expected to complement and present opportunities for fuel and oil, energy, and other businesses of SMC, as well as further expand the distribution network for food and beverages business of SMC.

Synergies with the other businesses of SMC will also contribute to the growth of SMHC as partnerships with these companies can create additional income for SMHC through the use of service facilities and advertising space rentals.

## Toll Road Concessions

Presidential Decree No. 1112 was signed authorizing the establishment of toll facilities on public improvements, creating a board for the regulation thereof and for other purposes. It is the same decree that states that the resources of the private sector can be tapped to provide certain infrastructure services to the general public and in return would have the right to collect toll fees in order to get a reasonable rate of return. The TRB (under the DOTr) was established to be the governing authority of all tolled infrastructure facilities in the Philippines. It is also empowered to enter into contracts, determine public improvements that can be operated as tolls, monitor operations and maintenance of tolled facilities, and approve tariff or toll rates for public infrastructure projects.

Currently, there are nine operational toll road facilities in the country recognized by the TRB, which are the TPLEX, Skyway Stages 1, 2 and 3, NAIAX, SLEX, STAR, Subic-Clark-Tarlac Expressway ("SCTEX"), North Luzon Expressway ("NLEX"), Manila-Cavite Expressway ("CAVITE") and Muntinlupa Cavite Expressway ("MCX"). Skyway Stage 3 has been completed and open to the use of the public but has not yet collected toll as the TRB has not issued a toll operation permit. Out of these nine operating toll facilities in the country, five are owned and controlled by SMHC namely Skyway Stages 1, 2 and 3, SLEX, STAR tollways, TPLEX and NAIAX. Several projects are still under construction while some are still in the design and planning stage. SMHC has rights to approximately 787.54 kilometers of total road length serving Metro Manila and other fast growing regions of Luzon, as set out below.

| TOLL ROAD PROJECT                             | Length (km) | Status                                                            |
|-----------------------------------------------|-------------|-------------------------------------------------------------------|
| <b>SMC</b>                                    |             |                                                                   |
| Tarlac Pangasinan La Union Expressway (TPLEX) | 89.21       | Section 1, 2 & 3A Operational.<br>Section 3B Ongoing Construction |
| Skyway (Stage 1 and 2)                        | 29.59       | Operational                                                       |
| Skyway Extension                              | 7.66        | Ongoing Construction                                              |
| South Luzon Expressway (SLEX TR1-TR3)         | 36.13       | Operational                                                       |
| Southern Tagalog Arterial Road (STAR)         | 41.90       | Operational                                                       |



|                                                 |                 |                                                                            |
|-------------------------------------------------|-----------------|----------------------------------------------------------------------------|
| NAIAx                                           | 5.46            | Operational                                                                |
| Skyway Stage 3 (NLEX-SLEX Link SMC)             | 17.93           | Operational                                                                |
| Skyway Stage 4/SEMME/ C6 Expressway (Phase 1&2) | 56.74           | For Implementation upon delivery of ROW                                    |
| SLEX TR4                                        | 66.74           | For Implementation upon delivery of ROW                                    |
| SLEX TR5                                        | 416.81          | With Business Joint Venture Agreement with PNCC.                           |
| Pasig River Expressway (PAREX)                  | 19.37           | With Business Joint Venture Agreement with PNCC.                           |
| <b>TOTAL SMC.....</b>                           | <b>787.54</b>   | <b>74.63%</b>                                                              |
| <b>Others</b>                                   |                 |                                                                            |
| Subic Clark Tarlac Expressway (SCTEX)           | 93.77           | Operational                                                                |
| North Luzon Expressway (NLEX)                   | 89.12           | Operational                                                                |
| CAVITEX                                         | 13.75           | Operational                                                                |
| Cavite Laguna Expressway (CALAX)                | 45.35           | Awarded by DPWH – Partially Operational                                    |
| Muntinlupa Cavite Expressway (MCX)              | 4.00            | Operational                                                                |
| NLEX-SLEX Connector Road                        | 8.00            | Ongoing Construction                                                       |
| Cebu-Cordova Link Expressway (CCLEX)            | 8.00            | Awarded by City of Cebu and Municipality of Cordova – Ongoing Construction |
| Harbor Link Segment 10                          | 5.70            | Operational                                                                |
| <b>TOTAL OTHERS.....</b>                        | <b>267.69</b>   | <b>25.37%</b>                                                              |
| <b>GRAND TOTAL.....</b>                         | <b>1,055.23</b> | <b>100%</b>                                                                |

### ***Tarlac-Pangasinan-La Union Expressway (“TPLEX”)***

In August 2009, SMC made its first infrastructure investment by acquiring a 35% (currently 70.11%) stake in SMCTC. SMCTC holds the 35-year BTO concession for TPLEX. The TPLEX is an 89.21 km toll expressway that connects the northern part of Luzon to Manila. The TPLEX is expected to be integrated with other major expressways (including the NLEX and SCTEX) for seamless toll system management and for the convenience of motorists.

Project cost for the development of TPLEX is estimated at ₱29,843 million, which is funded by a combination of debt, equity and Philippine government subsidy, which will be available at the start of construction of Section 3 of TPLEX.

Construction commenced in October 2010. Section 1 (from Tarlac to Carmen) was completed in April 2014. Section 2 (from Carmen to Urdaneta) was completed December 2014. Binalonan exit in Section 2 opened in July 2016. Section 3A until Pozzorubio was completed in December 2018. As of July 15, 2020, the remainder of the expressway from Pozzorubio to Rosario was completed. For the year ended December 31, 2019, the AADT of TPLEX was around 24,370 vehicles. As of June 30, 2020, the AADT decreased by about 37.93% to 15,127 vehicles. For the year ended December 31, 2020, the AADT of TPLEX was around 14,757 vehicles.

Construction from Talogtog to Pozzorubio and the Bued Viaduct is already completed. The last segment from Pozzorubio to Rosario was opened last July 15, 2020.

### ***South Luzon Expressway (“SLEX”)***

SMCSI is the concessionaire of the SLEX which currently spans 36.1 km from Alabang, Muntinlupa to Sto. Tomas, Batangas. SLEX is composed of four toll road segments, namely TR1, TR2, TR3 and TR4 which are intended to operate as an integrated expressway. Currently operational are TR1, TR2 and TR3. These were classified into four segments to clearly define the scope of work (including rehabilitation and/or construction works) for each.

TR1 involved the rehabilitation and upgrade of the Alabang viaduct which included the widening of the at-grade portion of the roads, retrofitting of the existing structure, and the replacement and expansion of the elevated portion from six to eight lanes. TR2 involved the widening of the SLEX segment between Filinvest exit and Sta. Rosa, Laguna from four to eight lanes and segment between Sta. Rosa, Laguna to Calamba, Laguna from four to six lanes. TR3 involved the construction of a four-lane roadway from Calamba, Laguna to Sto. Tomas Batangas.

The construction of this section connected Metro Manila, SLEX, and STAR. For the year ended December 31, 2020, the AADT of SLEX was around 274,931 vehicles.

The Detailed Engineering Designs of Sections A to E of TR4 (from Sto. Tomas, Batangas to Lucena City in Quezon, which were submitted last December 2014, were approved by the TRB first quarter, 2019. The SLEX TR4 groundbreaking ceremony was held last March 26, 2019. Updated parcellary plans for Section A (Sto. Tomas Batangas to Makban Laguna) were submitted to the TRB last August 30, 2019. Construction is ongoing within the Escudero Properties in Tiaong, Quezon. Ongoing coordination with the DPWH to expedite acquisition of ROW. TR4, a 66.74-km, four-lane road that will start from Sto. Tomas, Batangas to Lucena City, in Quezon, is expected to start operation by the fourth quarter of 2022. This will shorten the travel time to about an hour from the current four hours. It is divided into six sections: Sto. Tomas to Makban in Laguna; Makban to San Pablo City; San Pablo to Tiaong, Quezon; Tiaong to Candelaria, Quezon; Candelaria to Tayabas; and Tayabas to Lucena City. It will include seven interchanges in Sto. Tomas, Makban, San Pablo City, Tiaong, Candelaria, Sariaya and Lucena City. The whole project is estimated to cost around ₱26,100 million and is set to be finished by year 2024.

#### ***South Luzon Expressway Toll Road 5 (“SLEX TR5”)***

SLEX TR5, also known as the Quezon-Bicol Expressway, is a 416.81 km two-lane each direction, toll road project which starts from SLEX TR4 in Brgy. Mayao, Lucena City, Quezon, and ends at Matnog, Sorsogon, near the Matnog Ferry Terminal. This four-lane expressway project will be made up of 8 segments: Lucena to Gumaca, Quezon (59.60 kms), Gumaca to Tagkawayan, Quezon (62.40 kms), Tagkawayan to Sipocot, Camarines Sur (59.0 kms), Sipocot to Naga City, Camarines Sur (35.40 kms), Naga City to Polangui, Albay (48.00 kms), Polangui to Legaspi City, Albay (35.00 kms), Legaspi to Sorsogon City, Sorsogon (54.30 kms), and Sorsogon City to Matnog, Sorsogon (62.78 kms).

Centered on the proposal submitted by the joint venture (JV) of the Philippine National Construction Corporation (PNCC) and San Miguel Holdings Corporation (SMHC), the SLEX TR 5 was officially designated as a certified toll road project in a TRB resolution dated June 29, 2020.

The SLEX TR5 will run parallel to the current Philippine National Railway, Maharlika Highway, and Padre Burgos National Road or Quirino Highway, facilitating the creation of new growth centers in the Quezon and Bicol areas, as well as other southern sections of the country. The project aims to reduce the travel time from Lucena to Matnog from 9 hours to 5.5 hours, and connect major urban centers in Quezon and Bicol, providing access to tourist destinations, ro-ro ports, fish ports, and food production/agriculture areas.

As of December 31, 2020, San Miguel Holdings Corp. (“SMHC”) has an ownership interest of 90% in the South Luzon Toll-road 5 Expressway, Inc. (“SLEX TR5”).

#### ***Pasig River Expressway (“PAREX”)***

PAREX is a 19.37 km six-lane, all elevated expressway which runs through the entirety of the Pasig River. The project begins at Radial Road 10 (R10) in Manila and ends at Circumferential Road 6 (C6), where it will connect to the South East Metro Manila Expressway. This will link and utilize a 2.7-kilometer section of Skyway Stage 3 between Nagtahan and Plaza Azul. Once finished, the P95.4 Billion project will have the following segments: R-10-Plaza Azul (5.74 km), Plaza Azul-San Juan River via Skyway Stage 3 (2.70 km), San Juan River-C5 Intersection (7.32 km), and C5 Intersection-C6 Intersection (6.30 km).

The Pasig River Expressway is a joint project agreement between the Philippine National Construction Corporation (PNCC) and the SMHC.

The PAREX will run through Manila, Makati, Mandaluyong, Pasig, Taguig, municipality of Pateros in Metro Manila and Taytay in Rizal province, establishing a direct link between Metro Manila's western and eastern cities through an elevated expressway. It is expected to ease the decongestion of R-10, EDSA, and C-5 by creating a link between Metro Manila's toll roads and freeways. Not only that this will contribute to the Philippines' road transportation system's efficiency by delivering safe and dependable infrastructure, but this would also lead a historic endeavor to rehabilitate Metro Manila's main river, the Pasig River.

As of December 31, 2020, SMHC has an ownership interest of 90% in the PAREX.

## ***Skyway System***

### ***Skyway Stage 1 and 2***

The Republic of Indonesia was invited by the Philippine government to assist in the realization of the infrastructure development of the Philippines in 1994 through an Indonesian company. As a result of this initiative, a Memorandum of Agreement (“**MOA**”) was signed in Jakarta in 1993 between P.T. Citra Lamtoro Gung Persada (“**Citra**”) and PNCC in the presence of former President Fidel V. Ramos. In 1995, a Business and Joint Venture Agreement (“**BJVA**”) was signed by the said parties to undertake the construction of the Metro Manila Skyway (“**MMS**”) and Metro Manila Expressway (“**MME**”).

On November 27, 1995, SMC Skyway Corporation (formerly Citra Metro Manila Tollways Corporation) was incorporated as a stock corporation under the laws of the Republic of the Philippines, as a joint venture between Citra and PNCC, with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 1 and 2 projects.

Skyway Stage 1 consists of the construction of a 9.30 km elevated road from Bicutan, Parañaque City to the Buendia, Makati City as well as the rehabilitation of the 13.43 km at-grade road from Alabang, Muntinlupa to Magallanes, Makati City. Skyway Stage 1 was first opened to traffic in 1999, with an AADT of 160,000 vehicles, broken down into 25,000 and 135,000 of vehicles on the elevated highway and at-grade road, respectively. Skyway Stage 2 consists of a 6.86 km elevated toll road from Bicutan, Parañaque City to Alabang, Muntinlupa, to be integrated with Skyway Stage 1 and operated as 1 sub-system of the MMS.

Originally scheduled for completion in April 2011, Phase 1 of Skyway Stage 2 was completed on November 2010 and opened to the public in December the same year. Phase 2 of Skyway Stage 2 was completed on March 2011. In 2019, the full year AADT of Skyway Stages 1 and 2 is at 257,052 vehicles. As of June 30, 2020, the AADT for Skyway Stage 1 and 2 decreased to 149,823 vehicles, representing a 41.71% decrease compared to the AADT in 2019. For the year ended December 31, 2020, the AADT of Skyway was around 167,686 vehicles.

On June 29, 2019, the construction of the Skyway-Alabang South Extension Project began. This project aims to decongest the existing Skyway System and SLEX by widening the existing lanes approaching Sucat exit, and providing an elevated viaduct running from Susana Heights, connecting it to the existing Alabang Viaduct. This is foreseen to lessen the at-grade traffic through the diversion of motorists from at-grade to elevated.

Currently, the overall completion of the Skyway-Alabang South Extension is at 69.33%, with the on-going construction on northbound and southbound at 81.50% and 51.06% completion, respectively. The ₱14 billion project is scheduled to be completed by March 2021 for northbound, and June 2021 for southbound.

As of December 31, 2020, SMC Tollways Corporation, a 95% owned subsidiary of SMC, has an ownership interest of 87.84% in SMC Skyway Corporation (“**SMCSC**”).

### ***Skyway Stage 3***

Skyway Stage 3 is a 18.83 km elevated roadway from Buendia, Makati City to Balintawak, Quezon City. Skyway Stage 3 is a priority infrastructure project of the government meant to decongest major thoroughfares within Metro Manila and stimulate growth of trade and industry in Southern, Central and Northern Luzon. The project covers a concession period of 30 years (from start of operations) with an estimated cost of ₱76,014 million. Partial operations commenced last December 29, 2020. This is open to the public as schedules last January 14, 2021 free of toll fee while awaiting formal toll operation permit from TRB.

On November 16, 2012, SMC Skyway Stage 3 Corporation (formerly Citra Central Expressway Corp.) was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design and construct (under a BOT scheme with the Philippine government) the Skyway Stage 3 project. Subsequently, the Supplemental Toll Operation Agreement (“**STOA**”) covering the Skyway Stage 3 project was signed on September 26, 2013 among TRB, PNCC, and SMCSS3C.

As of December 31, 2020, Stage 3 Connector Tollways Holdings Corp. (“**S3HC**”), a 100% owned subsidiary of SMHC through SMC Tollways Corporation, has an ownership interest of 90% in SMC Skyway Stage 3 Corporation (“**SMCSS3C**”).

### ***Skyway Stage 4***

Skyway Stage 4 is a 56.74 km roadway from South Metro Manila Skyway to San Jose Del Monte, Bulacan and another spur to Luzon Avenue. Skyway Stage 4 serves as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the province of Rizal and Calabarzon area to Metropolis. The project covers a concession period of 30 years (from start of operations), with an estimated cost of ₱49,880 million.

On February 17, 2014, SMC Skyway Stage 4 Corporation (formerly Citra Intercity Tollways Inc) was incorporated as a stock corporation under the laws of the Republic of the Philippines to engage in the construction of toll roads, toll road facilities, including but not limited to the Metro Manila Expressway (MME) or C6 and any of its stages, linkages and extensions pursuant to a build and transfer or other scheme duly approved by the appropriate Philippine authorities. Subsequently, the Supplemental Toll Operation Agreement (“STOA”) covering the Skyway Stage 4 project was executed on July 4, 2014 among TRB, PNCC, and SMCSS4C.

As of December 31, 2020, SMC Infraventures Inc. (“SMCI”), a 100% owned subsidiary of SMHC, has an ownership interest of 77.93% in SMC Skyway Stage 4 Corporation (“SMCSS4C”)

### ***STAR Tollway***

In 2013, SMHC acquired equity interest in SIDC which holds the concession over the STAR Tollway, through its 58.31% membership interest in Sleep Coop and 50% shares in Wiselink. Sleep Coop and Wiselink own 40% and 60% of Cypress Tree Capital Investments, Inc. (“CTCII”), respectively, which owns 100% of SIDC.

STAR Tollway is composed of two stages – Stage 1 which involves the operation and maintenance of the 22.16 km toll road from Sto. Tomas, Batangas to Lipa City, Batangas and Stage 2 which involves the financing, design, construction, operation and maintenance of the 19.74 km toll road from Lipa City, Batangas to Batangas City, Batangas. The entire system had a full year AADT of 62,453 vehicles in 2019.

As of December 31, 2020, the AADT in STAR Tollway is 50,441 vehicles, representing a 19.23% decrease compared to 2019 AADT levels.

With the acquisition of Sleep Coop and Wiselink by SMHC, CTCII became a 100% owned subsidiary of SMC.

### ***NAIAX***

SMC NAIAX Corporation (formerly Vertex Tollways Devt. Inc.), a wholly-owned subsidiary of SMHC, was incorporated on May 31, 2013 for the purpose of holding the 30-year concession rights (including a two-year construction period) for the NAIAX project.

The ₱26,540 million NAIAX was the third PPP project awarded under the administration of President Benigno Aquino III. It was awarded by the DPWH through a competitive bidding process to Optimal Infrastructure Development, Inc. (“Optimal”) in 2013. Eventually, Optimal nominated SMCNC as the concessionaire of the said project. The concession agreement between DPWH and SMCNC was finalized and signed on July 8, 2013.

The project covers the financing, design, construction, operation and maintenance of a new tollway system, approximately 5.46 km in length, serving as interface to the Skyway Stage 1 and 2 and CAVITEX. The NAIAX (i) significantly reduces travel time from Skyway Stage 1 and 2 to Roxas Boulevard; (ii) provides easy access to airports in Metro Manila, linking them to Skyway Stages 1 and 2 and the CAVITEX and (iii) boosts tourism by providing access to and from Entertainment City, paving the way for further developments within the PAGCOR Entertainment City.

Partial operations of Phase 2A commenced in September 2016 and Phase 2B was completed and became fully operational in December 2016, with toll collections starting in January 31, 2017. Ramps 1 and 17 opened in June 2017, with toll collections starting in July 2017.

As of December 31, 2020, the AADT is at 44,184 vehicles.

## **Airport Concession**

### ***Boracay Airport***

In April 2010, SMHC acquired a 93.0% stake in Caticlan International Airport Development Corp. (subsequently renamed TADHC), while the remaining 7% interest was held by Akean Resorts Corporation, a non-affiliated entity. TADHC holds a 25-year concession for the Boracay Airport, granted by the Republic of the Philippines, through the DOTC (now, DOTr), under a contract, add, operate and transfer scheme under the BOT law. As of October 27, 2020, SMHC owns 99.92% of TADHC.

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. With the influx of tourist during the holidays, the Boracay Island has welcomed 2.0 million tourists by end of 2017. With the closure in 2018, tourists dropped to about 550,000 according to the Department of Tourism. For the six months ended June 30, 2020, approximately 209,477 tourists passed through Boracay Airport, according to data from the Airport Operations and Control Center of Boracay Airport. For the year ended December 31, 2020, tourists of Boracay Airport were around 222,110.

The planned expansion of the airport is expected to be completed in stages and involves the following: (i) upgrade and extension of the runway, from original scale of 950 meters long and 30 meters wide, to 2,100 meters long and 45 meters wide to accommodate larger international and domestic aircraft; (ii) upgrade of the Boracay Airport and its facilities to comply with International Civil Aviation Organization standards and the Manual of Standards for Aerodromes of the CAAP; (iii) replacement of the old 550 square meter terminal with a new world class passenger and cargo terminal and to commence construction of new terminal in 2016; (iv) improvement of road networks around Boracay Airport and its facilities; and (v) upgrade of air navigational systems.

Construction of the interim arrival hall and the new passenger terminal is currently on hold as well as the preparation of the extension of the runway from 1.8 km to 2.1 km.

### **Manila International Airport**

SMHC was granted the Original Proponent Status (OPS) by the DOTr for the construction of the Manila International Airport in Bulakan, Bulacan last September 22, 2017. The site of the airport has an aerial distance of 28.5km from NAIA and 61.3km from Clark. Total available area for the airport site and other development, is around 2,500 hectares.

The submission and opening for the Swiss Challenge commenced on July 31, 2019. Since there were no qualified challengers that participated, the Notice of Award (NOA) was issued on August 14, 2019 and was officially received by SMHC on August 19, 2019. SMAI, the special purpose company incorporated by SMHC to implement to the project, then proceeded with the execution of the Concession Agreement with the DOTr on September 18, 2019.

As of December 2020, SMAI generally cleared the site in preparation for the actual land development works. Works for the temporary construction logistics (facilities, utilities and services) will also be initiated in Q1 2021 to support the land development and future airport construction activities.

On the airport planning side, a revised conceptual masterplan was accomplished last December, with detailed design activities (e.g. masterplan, civil works and systems) proceeding in the second half of 2021.

## **Mass Rail Transit Concession**

### ***MRT-7***

In October 2010, SMC acquired a 51% stake in Universal LRT, which holds the 25-year concession for the MRT-7 project, a planned expansion of the Metro Manila mass transit rail system, home to over 10 million inhabitants. MRT-7 is a Build-Gradual Transfer-Operate-Maintain (BGTOM) project for the development, financing, operation and maintenance of a 22-km light rail transit that will be linked with the existing MRT-3 Line at SM North EDSA, Quezon City. The construction period for the project is about 42 months. The rail component of the MRT-7 is envisioned to have 14 stations plus a depot and will operate 108 rail cars in a 3-car

train configuration, with capacity of 448,000 to as many as 850,000 passengers daily. The project also includes an Intermodal Transport Terminal that can accommodate up to 60 buses and other public utility vehicles, and a 22-km 6-lane access road connecting the Intermodal Transport Terminal to the Bocaue exit of NLEX.

SMC fully acquired 100% stake in Universal LRT, effective July 1, 2016. As of December 31, 2020, the 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 Regadalo Avenue, is currently ongoing.

### ***Bulacan Bulk Water Supply Project***

The Bulacan Bulk Water Supply Project aims to provide clean and potable water 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.

On December 17, 2015, LCWDC was incorporated as a stock corporation under the laws of the Republic of the Philippines with the primary purpose to finance, design, construct, maintain, and operate water treatment and conveyance facilities. LCWDC and MWSS officially signed the Concession Agreement on January 15, 2016.

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). Phase 1 of this project was completed end of 2018 and Phase 2 of this project was completed in April 2019. The project started supplying potable water to Bulacan municipalities last January 2019.

### **Ports Concession**

#### ***Manila North Harbor***

MNHPI is the terminal operator of Manila North Harbor, a port facility situated at Tondo, City of Manila. The port 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.

To ensure fast, efficient and effective delivery of port services, MNHPI has increased its cargo handling capacity which now boasts of major equipment such as 6-ship-to-shore quay container cranes and 20 rubber-tired gantry cranes, all part of the plans and programs of MNHPI to transform Manila North Harbor into a premier and modern port.

On October 19, 2013, MNHPI formally inaugurated the North Passenger Terminal Complex, a passenger terminal facility which boasts of facilities designed to provide utmost safety, security and comfort to passengers and is the first of its kind in the Philippines, able to accommodate 2,000 passengers at any given time.

The ownership of SMC in MNHPI through SMHC as of December 31, 2020 is 50.00%.

### **Competition**

SMC is one of the major players in the infrastructure sector holding investments in companies with long term concession agreements with the Philippine government. It is currently managing and operating various infrastructure projects, namely: (1) TPLEX, (2) Skyway Stages 1 to 3, (3) NAIA Expressway, (4) SLEX TR1 to TR4, (5) STAR, (6) MRT7, (7) Boracay Airport, and (8) Manila North Harbor.

The infrastructure sector is a key investment area in the Philippines that is seen to provide a big potential to facilitate the development of other sectors. This has been a priority of the current Philippine government, which has also attracted other big conglomerates in the Philippines to enter this sector.

Other major players in this sector include Metro Pacific Investment Corporation operating the following: (1) the NLEX, (2) SCTEX, (3) CAVITEX, (4) the Cavite – Laguna (CALA) Expressway, (5) LRT1 Extension and

O&M in partnership with Ayala Corporation and (6) Maynilad; and Ayala Corporation, which was awarded the concession for the Daang Hari Expressway, a 4-kilometer toll road in Cavite in 2011.

Another major player is the Megawide Construction Corporation that operates the following: (1) Mactan-Cebu International Airport (MCIA) and (2) Parañaque Integrated Terminal Exchange (PITX). The GMR-Megawide Cebu Airport Corp. (“GMCAC”) is a consortium between the Megawide Corporation and India’s GMR Group, which was formed to manage and develop MCIA for the next 25 years. MCIA is fully operational, with the Terminal 2 commenced operations on June 30, 2018 and the Terminal 1 rehabilitation works completed on August 31, 2019.

PITX, on the other hand, is an intermodal terminal in southwest Metro Manila to be developed by the MWM Terminals Inc., a consortium led by the Megawide Construction Corporation. The PITX will serve as a hub with departure and arrival bays for buses, jeepneys and taxis, and with a maximum daily capacity of 100,000 passenger.

The North Luzon Airport Consortium (“NLAC”), which consists of the Gotianun-led Filinvest Development Corporation, Gokongwei's JG Summit Holdings Inc, Philippine Airport Ground Support Solutions Inc., and Changi Airport Philippines Pte. Ltd. (CAP), is set to operate and maintain the Clark International Airport. The new airport was designed to accommodate 8 million passengers per year, and connects the 9,450-hectare New Clark City. The structure was completed on September 2020 and would be fully operational by 2021.

## **OTHERS**

### **Properties Business**

Established in 1990 as the corporate real estate arm of SMC, San Miguel Properties Inc. 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. Dover Hill also has a swimming pool and playground.

##### *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 CBD, 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 masterplanned 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.



## Cement

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

### *Northern Cement Corporation*

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*

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 worldclass 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.

Below is a list of the major cement subsidiaries as of December 31, 2020:

San Miguel Equity Investments Inc. and subsidiaries including NCC, SMNCI, OCIC, First Stronghold Cement Industries, Inc., Ionic Cementworks Industries Inc., Arthocem Concrete Industries Inc., Southstrong Cement Industries Corp., East Star Cement Phils., Inc., Integrated Concrete Consolidated Industries Inc. (and its subsidiary, Dorilag Cement Corporation), Primero Cemento Industries Corp. and E-Novate Holdings, Inc.

## Banking

SMC, through SMPI, made a series of acquisitions of BankCom shares in 2007 and 2008 representing 39.93% ownership interest and additional acquisition of BankCom shares in December 2018, through SMC Equivest Corporation, representing 4.69% ownership interest. BankCom is a commercial bank licensed to engage in banking operations in the Philippines.

## **DESCRIPTION OF PROPERTY**

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The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “B” of this Prospectus.

The properties included in Appendix “B” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “B” of this Prospectus are in good condition, ordinary wear and tear excepted.

The SMC Group is continuously evaluating available properties for sale the cost or details of which cannot be determined at this time.

## **LEGAL PROCEEDINGS**

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Neither SMC nor any of its subsidiaries is a party to nor its properties subject of, any material pending legal proceeding that could be expected to have a material adverse effect on the issuance of the Bonds and on the results of the financials and the operations of SMC.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to page 87 of this Prospectus and Notes 24 and Note 43 of the audited financial statements of the Company for the period ended December 31, 2020.

# OWNERSHIP AND CAPITALIZATION

## Share Capital

As of December 31, 2020, the Company had the following outstanding capital stock:

| Title of Each Class                        | Number of Shares of<br>Common and Preferred Stock<br>Outstanding<br>as of December 31, 2020 |                      |
|--------------------------------------------|---------------------------------------------------------------------------------------------|----------------------|
| Common Shares                              | <u>2,383,896,588</u>                                                                        |                      |
| SUB-TOTAL (Common Shares)                  |                                                                                             | 2,383,896,588        |
| Series 1 Preferred Shares                  | 0                                                                                           |                      |
| Series "2-A" Preferred Shares              | 0                                                                                           |                      |
| Series "2-B" Preferred Shares              | 0                                                                                           |                      |
| Series "2-C" Preferred Shares              | 255,559,400                                                                                 |                      |
| Series "2-D" Preferred Shares              | 0                                                                                           |                      |
| Series "2-E" Preferred Shares              | 134,000,100                                                                                 |                      |
| Series "2-F" Preferred Shares              | 223,333,500                                                                                 |                      |
| Series "2-G" Preferred Shares <sup>6</sup> | 66,666,600                                                                                  |                      |
| Series "2-H" Preferred Shares              | 164,000,000                                                                                 |                      |
| Series "2-I" Preferred Shares              | 169,333,400                                                                                 |                      |
| Series "2-J" Preferred Shares              | 266,666,667                                                                                 |                      |
| Series "2-K" Preferred Shares              | 183,904,900                                                                                 |                      |
| SUB-TOTAL (Preferred Shares)               |                                                                                             | <u>1,463,464,567</u> |
| <b>TOTAL Outstanding Shares</b>            |                                                                                             | <b>3,847,361,155</b> |

## List of Top 20 Stockholders

The top 20 common and preferred stockholders of the Company as of December 31, 2020 are as follows:

|     | Stockholder Name                                            | Common        | Preferred<br>S2 | Total<br>Shares | % to Total<br>Outstanding<br>Capital Stock |
|-----|-------------------------------------------------------------|---------------|-----------------|-----------------|--------------------------------------------|
| 1.  | Top Frontier Investment Holdings, Inc.                      | 1,573,100,340 | 0               | 1,573,100,340   | 40.89%                                     |
| 2.  | PCD Nominee Corporation (Filipino)                          | 212,766,309   | 1,353,226,627   | 1,565,992,936   | 40.70%                                     |
| 3.  | Privado Holdings, Corp.                                     | 368,140,516   | 0               | 368,140,516     | 9.57%                                      |
| 4.  | PCD Nominee Corporation (Non-Filipino)                      | 41,886,676    | 8,317,920       | 50,204,596      | 1.30%                                      |
| 5.  | PCGG in Trust for the Comprehensive Agrarian Reform Program | 27,636,339    | 0               | 27,636,339      | 0.72%                                      |
| 6.  | San Miguel Brewery Inc. Retirement Plan                     | 0             | 15,487,000      | 15,487,000      | 0.40%                                      |
| 7.  | Petron Corporation Employees' Retirement Plan               | 12,237,100    | 0               | 12,237,100      | 0.32%                                      |
| 8.  | Millennium Energy, Inc.                                     | 10,807,380    | 0               | 10,807,380      | 0.28%                                      |
| 9.  | San Miguel Corporation Retirement Plan FIP                  | 0             | 9,346,900       | 9,346,900       | 0.24%                                      |
| 10. | Social Security System                                      | 0             | 7,328,500       | 7,328,500       | 0.19%                                      |
| 11. | Sysmart Corporation                                         | 4,614,820     | 0               | 4,614,820       | 0.12%                                      |
| 12. | Eduardo M. Cojuangco, Jr.                                   | 3,828,702     | 0               | 3,828,702       | 0.10%                                      |

<sup>6</sup> The Series 2-G Preferred Shares were redeemed as of March 30, 2021.

|     |                                              |                      |                      |                      |               |
|-----|----------------------------------------------|----------------------|----------------------|----------------------|---------------|
| 13. | Tincobar Holdings Corporation                | 0                    | 3,750,000            | 3,750,000            | 0.10%         |
| 14. | Saint Bruno Holdings Corporation             | 0                    | 3,750,000            | 3,750,000            | 0.10%         |
| 15. | CCJ Holdings Corporation                     | 0                    | 3,750,000            | 3,750,000            | 0.10%         |
| 16. | LOCC Holdings Corporation                    | 0                    | 3,750,000            | 3,750,000            | 0.10%         |
| 17. | Gingoo Holdings Corporation                  | 1,830,082            | 1,590,000            | 3,420,082            | 0.09%         |
| 18. | Pryce Corporation                            | 0                    | 3,417,110            | 3,417,110            | 0.09%         |
| 19. | San Miguel Corporation Retirement Plan - STP | 0                    | 3,166,500            | 3,166,500            | 0.08%         |
| 20. | GSIS Provident Fund                          | 0                    | 2,666,700            | 2,666,700            | 0.07%         |
|     | <b>TOTAL</b>                                 | <b>2,256,848,264</b> | <b>1,419,547,257</b> | <b>3,676,395,521</b> | <b>95.56%</b> |

### Security Ownership of Directors and Officers

The owners of more than 5% of the Company's voting<sup>7</sup> securities (both common and preferred shares) as of December 31, 2020 are as follows:

| Title of Class              | Name, Address of Record Owner and Relationship with Issuer                                                           | Name of Beneficial Owner and Relationship with Record Owner                                                                                                                                                                                                                               | Citizenship | No. of Shares Held        | Percent to Total Outstanding Capital Stock |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------------|--------------------------------------------|
| Common                      | Top Frontier Investment Holdings, Inc. <sup>8</sup><br>5th Floor, ENZO Bldg.,<br>No. 339 Sen. Gil Puyat, Makati City | Iñigo U. Zobel, Filipino, Director of the Company; and Ramon S. Ang, Filipino, the President and Chief Operating Officer of the Company, are beneficial owners of 59.96% and 26.05% <sup>9</sup> of the outstanding common stock of Top Frontier Investment Holdings, Inc., respectively. | Filipino    | 1,573,100,340             | 40.89%                                     |
| Common                      | PCD Nominee Corporation (Filipino)<br>Makati City                                                                    | Various individuals/<br>Entities                                                                                                                                                                                                                                                          | Filipino    | 212,766,309               | 40.70%                                     |
| Series "2" Preferred Shares | PCD Nominee Corporation (Filipino)<br>Makati City                                                                    | Various individuals/<br>Entities                                                                                                                                                                                                                                                          | Filipino    | 1,353,226,627             |                                            |
| Common                      | Privado Holdings, Corp.<br>Room 306 Narra Building, 2776 Pasong Tamo Extension, Makati City                          | Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado Holdings, Corp.                                                                                                                                                                           | Filipino    | 373,623,796 <sup>10</sup> | 9.71%                                      |

<sup>7</sup> Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "2" Preferred shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code: 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.

<sup>8</sup> The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2020, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 shares of the Company which represent about 65.99% of the outstanding common capital stock of the Company.

<sup>9</sup> As of December 31, 2020, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier Investment Holdings, Inc.

<sup>10</sup> Inclusive of 368,140,516 common shares held in the name of Privado Holdings, Corp. and 5,483,280 common shares which are lodged with the PDTC.

|  |  |  |  |  |  |
|--|--|--|--|--|--|
|  |  |  |  |  |  |
|--|--|--|--|--|--|

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the President, the directors, and key officers of the Company:

| Name of Owner                  | Amount and Nature of Ownership                                                                                                     |             | Citizenship | Total No. of Shares and Percent to Total Outstanding Capital Stock |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|--------------------------------------------------------------------|
|                                | Common                                                                                                                             | Preferred   |             |                                                                    |
| Ramon S. Ang                   | 1,345,429 (D)<br>368,140,516 (I) <sup>11</sup><br>5,483,280 (I) <sup>12</sup><br>235,335,950 (I)<br>174,180,260 (I)<br>358,615 (I) |             | Filipino    | 784,844,050 (20.40%)                                               |
| Leo S. Alvez                   | 10,000 (D)<br>9,326 (I)                                                                                                            |             | Filipino    | 19,326 (0.00%)                                                     |
| John Paul L. Ang               | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Aurora T. Calderon             | 22,600 (D)                                                                                                                         |             | Filipino    | 22,600 (0.00%)                                                     |
| Joselito D. Campos, Jr.        | 9,149 (D)                                                                                                                          |             | Filipino    | 9,149 (0.00%)                                                      |
| Teresita J. Leonardo-de Castro | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Jose C. de Venecia             | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Menardo R. Jimenez             | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Estelito P. Mendoza            | 31,972 (D)                                                                                                                         |             | Filipino    | 31,972 (0.00%)                                                     |
| Alexander J. Poblador          | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Reynato S. Puno                | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Thomas A. Tan                  | 5,000 (D)                                                                                                                          | 300,000 (I) | Filipino    | 305,000 (0.01%)                                                    |
| Margarito B. Teves             | 5,000 (D)                                                                                                                          |             | Filipino    | 5,000 (0.00%)                                                      |
| Ramon F. Villavicencio         | 35,000 (D)<br>9,000 (I)                                                                                                            |             |             | 44,000 (0.00%)                                                     |
| Iñigo U. Zobel                 | 16,171 (D)<br>943,230,964 (I) <sup>13</sup>                                                                                        |             | Filipino    | 943,247,135 (24.52%)                                               |
| Ferdinand K. Constantino       | 477,692 (D)                                                                                                                        | 200,000 (D) | Filipino    | 677,692 (0.02%)                                                    |
| Virgilio S. Jacinto            | 180,830 (D)                                                                                                                        |             | Filipino    | 180,830 (0.00%)                                                    |
| Joseph N. Pineda               | 62,715 (I)                                                                                                                         |             | Filipino    | 62,715 (0.00%)                                                     |
| Sergio G. Edeza                | 62 (D)                                                                                                                             |             | Filipino    | 62 (0.00%)                                                         |
| Lorenzo G. Formoso III         | 20,000 (D)                                                                                                                         |             | Filipino    | 20,000 (0.00%)                                                     |

The aggregate number of shares owned of record by the Chief Executive Officer, Chief Operating Officer, key officers, and directors (as a group) of the Company as of December 31, 2020 is 1,729,449,531 or approximately 44.95% of the outstanding capital stock of the Company.

#### Voting Trust of Holders of 5% and more

There is no person holding more than 5% of the Company's voting securities under a voting trust arrangement.

#### Changes in Control

The Company is not aware of any change of control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

<sup>11</sup> Through his 100% shareholdings in Privado Holdings, Corp.

<sup>12</sup> Through his 100% shareholdings in Privado Holdings, Corp. which has shares which are lodged with the PDTC.

<sup>13</sup> Through his 59.96% shareholdings in the common stock of Top Frontier Investment Holdings, Inc.

## MARKET PRICE OF AND DIVIDENDS ON THE EQUITY OF SMC AND RELATED SHAREHOLDER MATTERS

### Market Information

The common equity of SMC is listed on the PSE. The high and low sales prices for each period are indicated in the table below.

The common, Series “1”, and Series “2” preferred equity of SMC are traded on the PSE.

The Company’s high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2021 are as follows:

|                | 2020            |        |                 |        |                 |        |                 |        | 2021            |       |
|----------------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|-------|
|                | 1 <sup>st</sup> |        | 2 <sup>nd</sup> |        | 3 <sup>rd</sup> |        | 4 <sup>th</sup> |        | 1 <sup>st</sup> |       |
|                | High            | Low    | High            | Low    | High            | Low    | High            | Low    | High            | Low   |
| Common         | 165.00          | 144.80 | 105.10          | 171.90 | 105.10          | 170.10 | 142.90          | 150.00 | 134.00          | 72.50 |
| Preferred – 2C | 78.95           | 74.80  | 79.00           | 75.50  | 79.00           | 76.80  | 79.00           | 77.05  | 80.90           | 77.70 |
| Preferred – 2D | 76.05           | 73.00  | 75.90           | 73.40  | 75.90           | 75.00  | -               | -      | 80.90           | 77.70 |
| Preferred – 2E | 76.50           | 73.00  | 77.15           | 73.05  | 77.15           | 75.00  | 77.10           | 75.20  | 78.00           | 75.40 |
| Preferred – 2F | 78.00           | 74.00  | 79.50           | 74.50  | 79.50           | 76.20  | 79.00           | 76.80  | 79.75           | 77.25 |
| Preferred – 2G | 76.40           | 73.00  | 77.85           | 73.75  | 77.85           | 75.25  | 77.80           | 75.05  | 77.00           | 75.40 |
| Preferred – 2H | 76.50           | 74.00  | 77.30           | 73.80  | 77.30           | 75.05  | 78.00           | 75.45  | 79.00           | 75.65 |
| Preferred – 2I | 77.00           | 73.50  | 79.00           | 75.50  | 79.00           | 75.50  | 79.00           | 75.80  | 79.00           | 76.70 |
| Preferred – 2J | -               | -      | -               | -      | -               | -      | 77.10           | 75.00  | 77.20           | 75.50 |
| Preferred – 2K | -               | -      | -               | -      | -               | -      | 76.40           | 75.00  | 77.50           | 75.00 |

|                | 2019            |        |                 |        |                 |        |                 |        |
|----------------|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|
|                | 1 <sup>st</sup> |        | 2 <sup>nd</sup> |        | 3 <sup>rd</sup> |        | 4 <sup>th</sup> |        |
|                | High            | Low    | High            | Low    | High            | Low    | High            | Low    |
| Common         | 180.00          | 144.80 | 195.90          | 171.90 | 183.70          | 170.10 | 174.00          | 150.00 |
| Preferred – 2B | 75.90           | 74.00  | 75.95           | 73.15  | 77.50           | 74.50  | -               | -      |
| Preferred – 2C | 77.40           | 75.00  | 78.00           | 75.20  | 79.00           | 76.00  | 78.95           | 75.05  |
| Preferred – 2D | 74.45           | 71.40  | 73.85           | 71.05  | 76.45           | 72.50  | 76.00           | 74.70  |
| Preferred – 2E | 75.00           | 71.30  | 74.25           | 71.50  | 76.50           | 72.00  | 77.00           | 74.00  |
| Preferred – 2F | 76.80           | 72.00  | 75.00           | 73.00  | 78.00           | 73.75  | 77.75           | 75.35  |
| Preferred – 2G | 74.90           | 71.20  | 74.50           | 72.50  | 77.00           | 73.25  | 78.00           | 75.05  |
| Preferred – 2H | 74.50           | 71.00  | 74.00           | 70.00  | 79.95           | 70.50  | 76.95           | 74.00  |
| Preferred – 2I | 75.00           | 71.05  | 74.95           | 40.80  | 77.00           | 72.95  | 77.00           | 75.00  |

## Dividends and Dividend Policy

Cash dividends declared by the Board of Directors of SMC and paid to common shareholders amounted to ₱1.40 per share in 2020.

Cash dividends declared by the Board of Directors of SMC and paid to all Series “2” – Subseries “2-C”, Subseries “2-D”, Subseries “2-E”, Subseries “2-F”, Subseries “2-G”, Subseries “2-H”, Subseries “2-I”, Subseries “2-J”, and Subseries “2-K” preferred shareholders amounted to ₱6.00, ₱3.34299375, ₱4.744125, ₱5.1054, ₱4.934475, ₱4.74165, ₱4.751625, ₱0.890625, and ₱0.00 per share, respectively, in 2020.

Dividends may be declared at the discretion of the Board of Directors and will depend upon the future results of operations and general financial condition, capital requirements, its ability to receive dividends and other distributions and payments from its subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations and other factors the Board of Directors may deem relevant.

The table below sets forth the amount of dividends declared and paid since 2018.

### Common Shares

| Year   | Type | Per Share Amount (₱) | Date Declared | Record Date     | Payment Date     |
|--------|------|----------------------|---------------|-----------------|------------------|
| 2018   | Cash | 0.35                 | March 15      | April 6         | May 4            |
|        | Cash | 0.35                 | June 14       | July 2          | July 25          |
|        | Cash | 0.35                 | September 13  | October 5       | October 30       |
|        | Cash | 0.35                 | December 6    | January 2, 2019 | January 24, 2019 |
| Total: |      | 1.40                 |               |                 |                  |
| 2019   | Cash | 0.35                 | March 14      | April 5         | May 3            |
|        | Cash | 0.35                 | June 11       | July 5          | July 30          |
|        | Cash | 0.35                 | September 12  | October 11      | October 31       |
|        | Cash | 0.35                 | December 5    | January 3, 2020 | January 24, 2020 |
| Total: |      | 1.40                 |               |                 |                  |
| 2020   | Cash | 0.35                 | March 12      | April 3         | April 30         |
|        | Cash | 0.35                 | June 30       | July 15         | July 31          |
|        | Cash | 0.35                 | September 10  | October 9       | October 30       |
|        | Cash | 0.35                 | December 3    | January 4, 2021 | January 22, 2021 |
| Total: |      | 1.40                 |               |                 |                  |
| 2021   | Cash | 0.35                 | March 11      | April 5         | April 30         |
| Total: |      | 0.35                 |               |                 |                  |

### Preferred Shares - Series 1

| Year      | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|-----------|------|----------------------|---------------|--------------|------------------|
| 2018..... | Cash | 1.0565625            | January 25    | March 8      | April 5          |
|           | Cash | 1.0565625            | May 10        | June 21      | July 6           |
|           | Cash | 1.0565625            | August 8      | September 21 | October 5        |
|           | Cash | 1.0565625            | November 13   | December 21  | January 11, 2019 |
| ---       | ---  | ---                  | ---           | ---          | ---              |



|           |      |           |            |              |                  |
|-----------|------|-----------|------------|--------------|------------------|
| Total:    |      | 4.22625   |            |              |                  |
| 2019..... | Cash | 1.0565625 | January 24 | March 22     | April 5          |
|           | Cash | 1.0565625 | May 9      | June 21      | July 5           |
|           | Cash | 1.0565625 | August 8   | September 20 | October 4        |
|           | Cash | 1.0565625 | November 7 | December 20  | January 10, 2020 |
| Total:    | —    | 4.22625   | —          | —            | —                |
| 2020..... | Cash | 1.0565625 | January 23 | March 20     | April 3          |
| Total:    |      | 1.0565625 |            |              |                  |

#### Preferred Shares - Series 2B

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.4296875            | January 25    | March 8      | April 5          |
|            | Cash | 1.4296875            | May 10        | June 21      | July 6           |
|            | Cash | 1.4296875            | August 9      | September 21 | October 6        |
|            | Cash | 1.4296875            | November 13   | December 21  | January 11, 2019 |
| Total:     |      | 5.71875              |               |              |                  |
| 2019 ..... | Cash | 1.4296875            | January 24    | March 22     | April 5          |
|            | Cash | 1.4296875            | May 9         | June 21      | July 5           |
|            | Cash | 1.4296875            | August 8      | September 20 | October 4        |
| Total:     |      | 4.2890625            |               |              |                  |

#### Preferred Shares - Series 2C

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.50                 | January 25    | March 8      | April 5          |
|            | Cash | 1.50                 | May 10        | June 21      | July 6           |
|            | Cash | 1.50                 | August 9      | September 21 | October 5        |
|            | Cash | 1.50                 | November 13   | December 21  | January 11, 2019 |
| Total:     |      | 6.00                 |               |              |                  |
| 2019 ..... | Cash | 1.50                 | January 24    | March 22     | April 5          |
|            | Cash | 1.50                 | May 9         | June 21      | July 5           |
|            | Cash | 1.50                 | August 8      | September 20 | October 4        |
|            | Cash | 1.50                 | November 7    | December 20  | January 10, 2020 |
| Total:     |      | 6.00                 |               |              |                  |
| 2020 ..... | Cash | 1.50                 | January 23    | March 20     | April 3          |
|            | Cash | 1.50                 | May 28        | June 19      | July 3           |
|            | Cash | 1.50                 | August 6      | September 21 | October 5        |
|            | Cash | 1.50                 | November 5    | December 18  | January 8, 2021  |
| Total:     |      | 6.00                 |               |              |                  |
| 2021 ..... | Cash | 1.50                 | January 21    | March 19     | April 5          |

Total: 1.50

#### Preferred Shares - Series 2D

| Year       | Type    | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|---------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash    | 1.11433125           | January 25    | March 8      | April 5          |
|            | Cash    | 1.11433125           | May 10        | June 21      | July 6           |
|            | Cash    | 1.11433125           | August 9      | September 21 | October 5        |
|            | Cash    | 1.11433125           | November 13   | December 21  | January 11, 2019 |
| Total:     | ---     | 4.457325             | ---           | ---          | ---              |
| 2019 ..... | Cash    | 1.11433125           | January 24    | March 22     | April 5          |
|            | Cash    | 1.11433125           | May 9         | June 21      | July 5           |
|            | Cash    | 1.11433125           | August 8      | September 20 | October 4        |
| ---        | Cash--- | 1.11433125---        | November 7    | December 20  | January 10, 2020 |
| Total:     |         | 4.457325             | ---           | ---          | ---              |
| 2020 ..... | Cash    | 1.11433125           | January 23    | March 20     | April 3          |
|            | Cash    | 1.11433125           | May 28        | June 19      | July 3           |
|            | Cash    | 1.11433125           | August 6      | September 21 | October 5        |
| Total:     |         | 3.34299375           |               |              |                  |

#### Preferred Shares - Series 2E

| Year       | Type    | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|---------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash    | 1.18603125           | January 25    | March 8      | April 5          |
|            | Cash    | 1.18603125           | May 10        | June 21      | July 6           |
|            | Cash    | 1.18603125           | August 9      | September 21 | October 5        |
|            | Cash    | 1.18603125           | November 13   | December 21  | January 11, 2019 |
| Total:     | ---     | 4.744125             | ---           | ---          | ---              |
| 2019 ..... | Cash    | 1.18603125           | January 24    | March 22     | April 5          |
|            | Cash    | 1.18603125           | May 9         | June 21      | July 5           |
|            | Cash    | 1.18603125           | August 8      | September 20 | October 4        |
| ---        | Cash--- | 1.18603125           | November 7--- | December 20  | January 10, 2020 |
| Total:     |         | 4.744125             |               | ---          | ---              |
| 2020 ..... | Cash    | 1.18603125           | January 23    | March 20     | April 3          |
|            | Cash    | 1.18603125           | May 28        | June 19      | July 3           |
|            | Cash    | 1.18603125           | August 6      | September 21 | October 5        |
|            | Cash    | 1.18603125           | November 5    | December 18  | January 8, 2021  |
| Total:     |         | 4.744125             |               |              |                  |
| 2021.....  | Cash    | 1.18603125           | January 21    | March 19     | April 5          |
| Total:     |         | 1.18603125           |               |              |                  |

**Preferred Shares - Series 2F**

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.27635              | January 25    | March 8      | April 5          |
|            | Cash | 1.27635              | May 10        | June 21      | July 6           |
|            | Cash | 1.27635              | August 9      | September 21 | October 5        |
|            | Cash | 1.27635              | November 13   | December 21  | January 11, 2019 |
| Total:     |      | 5.1054               |               |              |                  |
| 2019 ..... | Cash | 1.27635              | January 24    | March 22     | April 5          |
|            | Cash | 1.27635              | May 9         | June 21      | July 5           |
|            | Cash | 1.27635              | August 8      | September 20 | October 4        |
|            | Cash | 1.27635              | November 7    | December 20  | January 10, 2020 |
| Total:     |      | 5.1054               |               |              |                  |
| 2020 ..... | Cash | 1.27635              | January 23    | March 20     | April 3          |
|            | Cash | 1.27635              | May 28        | June 19      | July 3           |
|            | Cash | 1.27635              | August 6      | September 21 | October 5        |
|            | Cash | 1.27635              | November 5    | December 18  | January 8, 2021  |
| Total:     |      | 5.1054               |               |              |                  |
| 2021.....  | Cash | 1.27635              | January 21    | March 19     | April 5          |
| Total:     |      | 1.27635              |               |              |                  |

**Preferred Shares - Series 2G**

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.23361875           | January 25    | March 8      | April 5          |
|            | Cash | 1.23361875           | May 10        | June 21      | July 6           |
|            | Cash | 1.23361875           | August 9      | September 21 | October 5        |
|            | Cash | 1.23361875           | November 13   | December 21  | January 11, 2019 |
| Total:     | —    | 4.934475             | —             | —            | —                |
| 2019 ..... | Cash | 1.23361875           | January 24    | March 22     | April 5          |
|            | Cash | 1.23361875           | May 9         | June 21      | July 5           |
|            | Cash | 1.23361875           | August 8      | September 20 | October 4        |
| —          | Cash | 1.23361875           | November 7    | December 20  | January 10, 2020 |
| Total:     | —    | 4.934475             | —             | —            | —                |
| 2020 ..... | Cash | 1.23361875           | January 23    | March 20     | April 3          |
|            | Cash | 1.23361875           | May 28        | June 19      | July 3           |
|            | Cash | 1.23361875           | August 6      | September 21 | October 5        |

|           |      |            |            |             |           |
|-----------|------|------------|------------|-------------|-----------|
|           | Cash | 1.23361875 | November 5 | December 18 | January 8 |
| Total:    |      | 4.934475   |            |             |           |
| 2021..... | Cash | 1.23361875 | January 21 | March 19    | April 5   |
| Total:    |      | 1.23361875 |            |             |           |

#### Preferred Shares - Series 2H

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.1854125            | January 25    | March 8      | April 5          |
|            | Cash | 1.1854125            | May 10        | June 21      | July 6           |
|            | Cash | 1.1854125            | August 9      | September 21 | October 5        |
|            | Cash | 1.1854125            | November 13   | December 21  | January 11, 2019 |
| Total:     | —    | 4.74165              | —             | —            | —                |
| 2019 ..... | Cash | 1.1854125            | January 24    | March 22     | April 5          |
|            | Cash | 1.1854125            | May 9         | June 21      | July 5           |
|            | Cash | 1.1854125            | August 8      | September 20 | October 4        |
| —          | Cash | 1.1854125            | November 7    | December 20  | January 10       |
| Total:     | —    | 4.74165              | —             | —            | —                |
| 2020 ..... | Cash | 1.1854125            | January 23    | March 20     | April 3          |
|            | Cash | 1.1854125            | May 28        | June 19      | July 3           |
|            | Cash | 1.1854125            | August 6      | September 21 | October 5        |
|            | Cash | 1.1854125            | November 5    | December 18  | January 8, 2021  |
| Total:     |      | 4.74165              |               |              |                  |
| 2021 ..... | Cash | 1.1854125            | January 21    | March 19     | April 5          |
| Total:     |      | 1.1854125            |               |              |                  |

#### Preferred Shares - Series 2I

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date  | Payment Date     |
|------------|------|----------------------|---------------|--------------|------------------|
| 2018 ..... | Cash | 1.18790625           | January 25    | March 8      | April 5          |
|            | Cash | 1.18790625           | May 10        | June 21      | July 6           |
|            | Cash | 1.18790625           | August 9      | September 21 | October 5        |
|            | Cash | 1.18790625           | November 13   | December 21  | January 11, 2019 |
| Total:     | —    | 4.751625             | —             | —            | —                |
| 2019 ..... | Cash | 1.18790625           | January 24    | March 22     | April 5          |
|            | Cash | 1.18790625           | May 9         | June 21      | July 5           |
|            | Cash | 1.18790625           | August 8      | September 20 | October 4        |
| —          | Cash | 1.18790625           | November 7    | December 20  | January 10, 2020 |
| Total:     | —    | 4.751625             | —             | —            | —                |
| 2020 ..... | Cash | 1.18790625           | January 23    | March 20     | April 3          |
|            | Cash | 1.18790625           | May 28        | June 19      | July 3           |

|           |      |            |            |              |                 |
|-----------|------|------------|------------|--------------|-----------------|
|           | Cash | 1.18790625 | August 6   | September 21 | October 5       |
|           | Cash | 1.18790625 | November 5 | December 18  | January 8, 2021 |
| Total:    |      | 4.751625   |            |              |                 |
| 2021..... | Cash | 1.18790625 | January 21 | March 19     | April 5         |
| Total:    |      | 1.18790625 |            |              |                 |

#### Preferred Shares - Series 2J

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date | Payment Date    |
|------------|------|----------------------|---------------|-------------|-----------------|
| 2020 ..... | Cash | 0.890625             | November 5    | December 18 | January 8, 2021 |
| Total:     |      | 0.890625             |               |             |                 |
| 2021 ..... | Cash | 0.890625             | January 21    | March 19    | April 5         |
| Total:     |      | 0.890625             |               |             |                 |

#### Preferred Shares - Series 2K

| Year       | Type | Per Share Amount (₱) | Date Declared | Record Date | Payment Date |
|------------|------|----------------------|---------------|-------------|--------------|
| 2021 ..... | Cash | 0.84375              | January 21    | March 19    | April 5      |
| Total:     |      | 0.84375              |               |             |              |

Similarly, the subsidiaries of SMC may declare dividends at the discretion of their respective boards of directors and will depend upon the future results of operations and general financial condition, capital requirements, their ability to receive dividends and other distributions and payments from their respective subsidiaries, foreign exchange rates, legal, regulatory and contractual restrictions, loan obligations, and other factors their respective boards of directors may deem relevant.

#### Sale of Unregistered or Exempt Including Securities Constituting an Exempt Transaction

There were no securities sold by SMC within the past three (3) years which were not registered under the SRC, except for the following:

| Name of Security Sold                          | Underwriters                           | Date of Sale  | Amount of Securities | Basis for Exemption         |
|------------------------------------------------|----------------------------------------|---------------|----------------------|-----------------------------|
| 2-year Fixed Rate Notes due 2020 <sup>14</sup> | BDO Capital and Investment Corporation | May 25, 2018  | ₱10,000,000,000.00   | Section 10.1 (I) of the SRC |
| U.S.\$3,000,000,000                            | BofA Securities                        | July 29, 2020 | U.S.\$500,000,000.00 | Section 10.1 (I) of         |

<sup>14</sup> Redeemed on May 25, 2020.

|                                                                 |                                             |               |                                            |                                |
|-----------------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|--------------------------------|
| Medium Term Note Programme                                      | DBS Bank Ltd.<br>Standard<br>Chartered Bank |               |                                            | the SRC                        |
| Redeemable<br>Perpetual Securities<br>– Peso and U.S.<br>Dollar | N/A                                         | Various dates | ₱14,810,000,000.00<br>U.S.\$100,000,000.00 | Section 10.1 (k) of<br>the SRC |

Other securities issued by SMC within the same period are common shares under the Long-Term Incentive Plan for Stock Options and employee stock purchase plan pursuant to Section 10.2 of the SRC.

### Foreign Equity Holders

As of March 31, 2021, the percentage of the total outstanding capital stock of SMC held by foreigners is 1.60%.

| Class of Shares               | Foreign Shares | % of Foreign Owned |
|-------------------------------|----------------|--------------------|
| Common Shares                 | 52,932,485     | 2.22%              |
| Series “2-C” Preferred Shares | 1,314,630      | 0.51%              |
| Series “2-E” Preferred Shares | 815,582        | 0.61%              |
| Series “2-F” Preferred Shares | 1,648,262      | 0.74%              |
| Series “2-H” Preferred Shares | 1,313,764      | 0.80%              |
| Series “2-I” Preferred Shares | 2,137,070      | 1.26%              |
| Series “2-J” Preferred Shares | 533,900        | 0.20%              |
| Series “2-K” Preferred Shares | 748,800        | 0.41%              |
| TOTAL                         | 61,444,493     | 1.60%              |

# MANAGEMENT

The overall management and supervision of SMC is undertaken by the board of directors (the “**Board**”). The executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning SMC’s business operations, financial condition and results of operations for its review.

## Board of Directors

Currently, the Board consists of the following members, three of whom are independent directors. The table below sets forth certain information regarding the members of the Board:

| <b>Name</b>                         | <b>Age</b> | <b>Citizenship</b> | <b>Position</b>      |
|-------------------------------------|------------|--------------------|----------------------|
| Ramon S. Ang.....                   | 67         | Filipino           | Vice Chairman        |
| Leo S. Alvez.....                   | 78         | Filipino           | Director             |
| John Paul L. Ang.....               | 41         | Filipino           | Director             |
| Aurora T. Calderon.....             | 66         | Filipino           | Director             |
| Joselito D. Campos, Jr. ....        | 70         | Filipino           | Director             |
| Jose C. De Venecia, Jr. ....        | 84         | Filipino           | Director             |
| Menardo R. Jimenez .....            | 88         | Filipino           | Director             |
| Estelito P. Mendoza.....            | 91         | Filipino           | Director             |
| Alexander J. Poblador .....         | 67         | Filipino           | Director             |
| Thomas A. Tan .....                 | 66         | Filipino           | Director             |
| Iñigo U. Zobel.....                 | 64         | Filipino           | Director             |
| Ramon F. Villavicencio.....         | 79         | Filipino           | Director             |
|                                     |            |                    |                      |
| Teresita J. Leonardo-de Castro..... | 72         | Filipino           | Independent Director |
| Reynato S. Puno.....                | 79         | Filipino           | Independent Director |
| Margarito B. Teves.....             | 76         | Filipino           | Independent Director |

Fourteen (14) members of the Board of Directors were elected during the Annual Stockholders’ Meeting of the Company on June 30, 2020. Independent Director Teresita J. Leonardo-de Castro was elected as Independent Director during the meeting of the Board of Directors of the Company on August 6, 2020 by the members of the Board of Directors still constituting a quorum. On January 21, 2021, during the meeting of the Board of Directors, the members of the Board of the Company still constituting a quorum elected Mr. John Paul L. Ang as Director of the Company.

**Ramon S. Ang** is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee of the Company. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings, Inc. and Petron Corporation; President of Ginebra San Miguel, Inc.; Chairman of the Board of Directors of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia) and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is also the Chairman of the Board of San Miguel Brewery Inc.; Chairman of the Board and Chief Executive Officer, and President and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman of the Board and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., and San Miguel Aerocity Inc.; Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp.; Chairman of the Board of San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc. and SEA Refinery Corporation; President of San Miguel Northern Cement, Inc. and President and Chief Executive Officer of Northern Cement Corporation. He is also the sole

director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation, President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of the Company in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

**Leo S. Alvez** has been a Director of the Company since February 27, 2002 and a Member of the Audit and Risk Oversight Committee of the Company. He is also a Director of Ginebra San Miguel, Inc., Chairman of its Nominations and Hearing Committee and Member of its Executive Compensation Committee and Audit Committee; and a former Director of San Miguel Pure Foods Company, Inc. (*now, San Miguel Food and Beverage, Inc.*), both of which are publicly listed companies. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

**John Paul L. Ang** was elected a director of the Company on January 21, 2021. Mr. Ang holds directorships in other listed companies namely, Petron Corporation. He is also the President and Chief Executive Officer of Eagle Cement Corporation since 2008, and Soutwestern Cement Corporation since 2017. He is also a director of KB Space Holdings, Inc. Mr. Ang graduated with a degree in Bachelor of Arts Major in Interdisciplinary Studies at the Ateneo de Manila University.

**Aurora T. Calderon** has been a director of the Company since June 10, 2014. She is also the Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. She is a member of the Corporate Governance Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). She is also a member of the Board of Directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, San Miguel Equity Investments Inc., SMC Asia Car Distributors Corp., San Miguel Yamamura Packaging Corp., and San Miguel Aerocity Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

**Joselito D. Campos, Jr.** has been a Director since May 31, 2010. He is a member of the Related Party Transactions Committee of the Company. He is the Managing Director and Chief Executive Officer of Del Monte Pacific Ltd., President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman of the Board and Chief Executive Officer of the NutriAsia Group of Companies, Chairman of the Board of Fort Bonifacio Development Corp. and Vice Chairman of the Board of Ayala Greenfield Development Corp. He is also a Director of FieldFresh Foods (P) Ltd. He was the former Chairman of the Board and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship and a member of the WWF (World Wildlife Fund) for Nature - Philippines. He graduated with a degree in BS Commerce, Major in International Business from the University of Santa Clara, California and a Masters in Business Administration degree from Cornell University, New York. **Jose De Venecia, Jr.** is a Director of the Company since March 16, 2017. He was former Speaker of the House of Representatives (from 1992 to 1998, and from 2001 to 2008). Before joining politics, he was an international entrepreneur, engaged in the business of port operations in Saudi Arabia, agriculture in Africa, mass housing in Iraq and oil exploration in the United Arab Emirates. He has a Bachelor of Arts degree in Journalism from the Ateneo de Manila University. He completed his secondary education at De La Salle College, Manila.

**Menardo R. Jimenez** has been a Director of the Company since February 27, 2002 and a Member of the Executive Committee and Corporate Governance Committee of the Company. He is also a Director of San Miguel Food and Beverage, Inc., a publicly listed company, and Magnolia, Inc. He is the Chairman of Coffee Bean and Tea Leaf Holdings, Inc., Dasoland Holdings Corporation, Majent Management and Development



Corporation, Meedson Properties Corporation, Menarco Holdings, Inc., Next Century Building Systems, Inc., Television International Corporation and the Table Group, Inc. He is also Chairman Emeritus of Majent Agro Industrial Corporation, and NuvoLand Philippines, Inc. He is also a director of Magnolia, Inc., Cunickel Mining & Industrial Corporation, Dasoland Corporation, Menarco Development Corporation, Menarco Property Development & Management Corporation, Modesto Holdings Philippines, Inc., Unicapital Equities Ventures Inc. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

**Estelito P. Mendoza** was first elected as a Director of the Company on October 30, 1991 and served until April 21, 1993. He was re-elected as Director of the Company on April 21, 1998 up to the present. He is a Member of the Executive Committee and the Audit and Risk Oversight Committee of the Company. He is also a Director of Petron Corporation and Philippine National Bank. He was formerly a director of the Manila Electric Company and Philippine Airlines Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office, and was also formerly Chairman of the Board of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law *cum laude*. He also holds a Master of Laws degree from Harvard Law School.

**Alexander J. Poblador** has been a Director of the Company since September 1, 2009 and a Member of the Related Party Transactions Committee of the Company. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization. He also sits as a member of the Board of Directors of Alpha Aviation Group (Phil), Inc., Alsa Industries, Inc., Delfi Foods Inc., Felfi Marketing Inc., Xytron International, Inc. and B-Light Universal Trading, Inc. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws *cum laude*, class valedictorian, and Bachelor of Arts in Political Science *cum laude*. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

**Thomas A. Tan** was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and its subsidiaries, director of San Miguel Foods, Inc. and President of Saturn Cement Corporation and Sakomoto International Packaging Corp. He obtained a degree in Bachelor of Science, Major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management degree from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

**Ramon F. Villavicencio** is a Director of the Company since March 15, 2018. Prior to his election as director of the Company, he owns the ICVI Financial Consultancy Services, has ownership interests in JoyToAll Amusement Corporation and is a consultant of Petro Finance Services, Inc. He graduated from De La Salle College with a degree in Bachelor of Science in Commerce and a Masters in Business Administration.

**Iñigo U. Zobel** has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He is a Member of the Executive Committee of the Company. He holds the position of Chairman of the Board of Top Frontier Investment Holdings, Inc., a publicly listed company. He is also the Chairman of the Board and President of Zygnet Prime Holdings Inc.; Chairman of the Board of IZ Investment Holdings, Inc. and E. Zobel, Inc.; Director of E. Zobel Foundation, Inc. Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly Chairman (2015-2016), Vice Chairman (since 2016) and President (since 2015) of Manila North Harbour Port, Inc., a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. He was formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He attended Santa Barbara College, California, U.S.A.

**Teresita J. Leonardo-de Castro** was elected as an Independent Director of the Company on August 6, 2020. She is currently an independent director of Top Frontier Investment Holdings Inc. since July 8, 2019. She also sits as an independent director of the Philippine Stock Exchange and the Securities Clearing Corporation of the Philippines. She is the President of the UP Sigma Alpha Sorority Alumnae Association, Inc. and Consultant of the Supreme Court Committee on Family Courts and Juvenile Concerns. In 2018, she was the Chief Justice of the Supreme Court until her retirement on October 10, 2018. She joined the Supreme Court as an Associate Justice on December 4, 2007. She was also the Presiding Justice of the Sandiganbayan from 2004 to 2007 and

was previously Associate Justice of the Sandiganbayan (1997-2004). She completed her Bachelor of Laws in 1972 and Bachelor of Arts degree in political science *cum laude* in 1968, both from the University of the Philippines.

**Reynato S. Puno** was elected to the Board as an Independent Director of the Company on January 20, 2011 and is the Chairman of the Corporate Governance Committee and a Member of the Audit and Risk Oversight Committee of the Company. He is also an independent director of San Miguel Brewery Hong Kong Ltd. (a company publicly listed in the Hong Kong Stock Exchange) and Union Bank of the Philippines, Inc., and a member of the Board of Commissioners of PT Delta Djakarta Tbk (a company listed in the Indonesia Stock Exchange). He is also the Chairman of the Environmental Heroes Foundation and World Vision; Vice Chairman of the Board of the GMA Kapuso Foundation; and Director of The New Standard newspaper. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1980, 1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

**Margarito B. Teves** was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit and Risk Oversight Committee and a Member of the Corporate Governance Committee and Related Party Transactions Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, SMC Tollways Corporation (*formerly*, Atlantic Aurum Investments Philippine Corporation), AB Capital Investment Corp., Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of the Board of Think Tank Inc. and a director of Pampanga Sugar Development Co. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

## Senior Management

The table below sets forth the executive officers of the SMC Group as of the date of this Prospectus.

| <u>Name</u>                    | <u>Age</u> | <u>Citizenship</u> | <u>Position</u>                                                                          |
|--------------------------------|------------|--------------------|------------------------------------------------------------------------------------------|
| Ramon S. Ang .....             | 67         | Filipino           | President and Chief Operating Officer                                                    |
| Ferdinand K. Constantino ..... | 69         | Filipino           | Chief Finance Officer and Treasurer                                                      |
| Virgilio S. Jacinto.....       | 64         | Filipino           | Senior Vice President, General Counsel,<br>Corporate Secretary and Compliance Officer    |
| Aurora T. Calderon .....       | 66         | Filipino           | Senior Executive Assistant to the Office of<br>the President and Chief Operating Officer |
| Joseph N. Pineda .....         | 58         | Filipino           | Senior Vice President and Deputy Chief<br>Finance                                        |
| Sergio G. Edeza.....           | 63         | Filipino           | Senior Vice President and Head of Treasury                                               |
| Lorenzo G. Formoso III .....   | 58         | Filipino           | Senior Vice President and Head of SMC<br>Infrastructure Business                         |

As of the date of this Prospectus, the positions of Chairman of the Board and the Chief Executive Officer remain vacant in view of the demise of Mr. Eduardo M. Cojuangco, Jr. on June 16, 2020. Said positions were held by Mr. Cojuangco since July 7, 1998.

**Ferdinand K. Constantino** was a Director of the Company from May 31, 2010 to February 28, 2018. He is the Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions in other publicly-listed companies, as follows: Director of Top Frontier Investment Holdings, Inc. and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). He is also the Director and Vice

Chairman of the Board of SMC Global Power Holdings Corp., President of Anchor Insurance Brokerage Corporation; Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., SMC Skyway corporation (*formerly*, Citra Metro Manila Tollways Corporation), San Miguel Aerocity Inc. and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of the San Miguel Foundation, Inc. Mr. Constantino is also a member of the board of directors of The Philippine Stock Exchange, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of the Company during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

**Virgilio S. Jacinto** is the Corporate Secretary, Senior Vice-President and General Counsel, and Compliance Officer of SMC (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Corporate Secretary of Ginebra San Miguel, Inc. and other subsidiaries and affiliates of SMC. He is a Director of Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as SMC General Counsel in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of SMC.

**Joseph N. Pineda** is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. He is a director of the Philippine Dealing System Holdings, Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

**Sergio G. Edeza** is the Senior Vice President and Head of Treasury of SMC. Prior to joining SMC, Mr. Edeza was a Director of Merchant's Bank (2008), President (2007) and Director (2008) of the Money Market Association of the Philippines, Executive Vice President and Treasurer of Rizal Commercial Banking Corporation, Treasury Consultant of YGC Corporate Services, and President and CEO of PhilEXIM Guarantee Corporation. He was also Treasurer of the Republic of the Philippines from February 16, 2001 to February 16, 2004. Mr. Edeza is a Certified Public Accountant and a Career Service Professional. He obtained his Bachelor of Science in Commerce degree and Master of Business Administration degree from the De La Salle University, and was accepted at the John F. Kennedy School of Government at Harvard University. Mr. Edeza holds directorships in various SMC subsidiaries.

**Lorenzo G. Formoso III** is the Senior Vice President and Head of the Infrastructure Business. Atty. Formoso holds various directorships in various local and offshore subsidiaries of SMC. Previously, he was a consultant of the Company for Infrastructure and Transportation from July 2009 to August 2010. He was previously Assistant Secretary of the Department of Transportation and Communication of the Philippine Government from September 2006 to June 2009 and Deputy Commissioner of the Commission on Information and Communications Technology. He obtained his Juris Doctor degree from University of California, Davis School of Law and a degree in Bachelor of Arts in Philosophy from the University of the Philippines. Atty. Formoso is a director in various SMC subsidiaries.

#### **Committees of the Board of Directors**

The Company's Board of Directors appoint directors to the four Board committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified. The four committees are: (i) the Executive Committee; (ii) the Audit and Risk Oversight Committee; (iii) the Related Party Transactions Committee; and (iv) the Corporate Governance Committee. The attendance of a majority of its members will constitute a quorum for the committee

to transact business. The committee will act only on the affirmative vote of at least a majority of the members present at a meeting at which there is a quorum.

#### *Executive Committee*

The Executive Committee is tasked to help and assist the officers in the management and direction of the affairs of the Company. It acts within the powers and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company, with the exception of the power to appoint any entity as general managers or management or technical consultants, to guarantee obligations of other corporations in which the Company has lawful interest, to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests, and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

The Executive Committee is currently composed of four directors that includes the President. The acting Chairman of the Executive Committee is the Vice Chairman, Mr. Ramon S. Ang. The members of the committee are Messrs. Estelito P. Mendoza, Menardo R. Jimenez, and Iñigo U. Zobel.

#### *Audit and Risk Oversight Committee*

The Audit and Risk Oversight Committee is responsible for assisting the Board in the performance of its oversight responsibility on financial reports and financial reporting process, internal control system, audit process and plans, directly interfacing with internal and external auditors, and in monitoring and facilitating compliance with both the internal financial management manual and pertinent accounting standards, including regulatory requirements, elevating to international standards the accounting and auditing processes, practices and methodologies of the Company. The committee performs financial oversight management functions, specifically in the areas of credit management, markets liquidity, operational, legal and other risks, as well as crisis management. The Audit and Risk Oversight committee has primary responsibility for recommending the appointment and removal of the Company's external auditor. Presently, the Company's external auditor is R.G. Manabat & Co.

The Audit and Risk Oversight Committee is composed of four members, a majority of whom are non-executive and independent directors. All committee members have relevant background, knowledge, skills or experience in the areas of accounting, auditing and finance. The members of the committee are Mr. Reynato S. Puno (Independent), Mr. Leo S. Alvez, and Mr. Estelito P. Mendoza. The chairperson of the Audit Committee is Mr. Margarito B. Teves (Independent). Mr. Reynaldo G. David (Independent) was a member of the Audit and Risk Oversight Committee until his demise on December 13, 2020.

#### *Related Party Transactions Committee*

The Related Party Transactions Committee is tasked to review all material related party transactions ("RPTs") of the Company to make certain that these are entered into, as a matter of policy, on an arms-length basis and at market rates. It shall evaluate existing relations between and among businesses and counterparties to ensure the identification of all related parties, including changes in relationships of counterparties, and that RPTs are monitored. The committee is responsible for ensuring that appropriate disclosures are made relating to the Company's RPT exposures and policies on conflict of interest. It shall also oversee the periodic review of RPT policies and procedures.

The Related Party Transactions Committee is composed of four members. The members of the committee are Mr. Margarito B. Teves (Independent), Mr. Joselito D. Campos, Jr., Mr. Alexander J. Poblador, and Reynato S. Puno (Independent). The Chairman of the Related Party Transactions Committee was Reynaldo G. David (Independent) until his demise on December 13, 2020.

#### *Corporate Governance Committee*

The Corporate Governance Committee is tasked to ensure the Company's compliance and proper observance of corporate governance principles and practices. It oversees the implementation of the Company's corporate governance framework and the performance evaluation of the Board and its committees, as well as top management, to ensure that management's performance is at par with the standards set by the Board. The committee advises the Board on the establishment of a formal and transparent procedure for developing policy

on remuneration of directors and senior management that is aligned with the long term interests of the Company, ensuring that compensation is consistent with the Company's culture and strategy, as well as the business environment in which it operates. It likewise reviews and oversees the implementation of policies relating to business interest disclosures and conflict of interest, appointments and promotions of officers, and succession planning. Further, the committee determines the nomination and election process for the Company's Board of Directors, and screens and shortlists candidates to the Board in accordance with the qualifications and disqualifications for directors defined in the Company's by-laws, Manual on Corporate Governance, applicable laws and regulations.

The Corporate Governance Committee is composed of four directors of the Company, two of whom are Independent Directors. The Corporate Governance Committee chairperson is Mr. Reynato S. Puno (Independent). The members of the committee are Messrs. Margarito B. Teves (Independent), Menardo R. Jimenez, and Ms. Aurora T. Calderon. Mr. Reynaldo G. David (Independent) was a member of the Audit and Risk Oversight Committee until his demise on December 13, 2020.

### **Corporate Governance**

The Company recognizes that good governance helps the business to deliver strategy, generate and sustain shareholder value, and safeguard shareholders' rights and interests. The Company's Board of Directors, management and employees adhere to the highest standards of corporate governance as a vital component of sound business management.

The Company's Board of Directors, led by Vice Chairman Ramon S. Ang, believes in conducting the business affairs of the Company in a fair and transparent manner and in maintaining the highest ethical standards in all the Company's business dealings.

#### ***Manual on Corporate Governance***

The first Manual on Corporate Governance of the Company was approved by the Board of Directors in June 27, 2002. In May 10, 2017, the Board of Directors approved a new Manual on Corporate Governance (the "**Manual**") to align with the Code of Corporate Governance for Publicly-Listed Companies issued by the SEC under SEC Memorandum Circular No. 19, series of 2016. The Manual is available for examination in the Company's corporate website at <https://www.sanmiguel.com.ph/disclosures/l/manual-of-corporate-governance>.

The Company's monitoring of the implementation of the evaluation system to measure and determine the level of compliance of the Board of Directors and top-level management with the Manual is vested by the Board of Directors in the Compliance Officer.

#### ***Amendments to the By-laws of the Company***

On April 15, 2021, the Board of Directors approved the amendment of the By-laws of the Company to define the role, functions and duties of the Chairman of the Board, formerly the "Chairman and Chief Executive Officer" and the President and Chief Executive Officer, formerly the "President and Chief Operating Officer".

Specifically, the amendments are as follows: (a) the roles, functions and duties of the Chairman of the Board are separated from the President and Chief Executive Officer such that the scope of the role and duties of the Chairman are focused on the non-executive functions; and (b) the roles, functions and duties of the President and Chief Executive Officer is unified in the position of the President. This change is in accordance with the recommended best practices in corporate governance on the separate functions of the Chairman and the President.

The proposed amendments to the By-laws is subject to the approval of the stockholders of the Company on June 8, 2021, and the approval by the SEC of the amendment of the by-laws of the Corporation.

#### ***Compliance and Monitoring System***

To ensure adherence to corporate governance principles and best practices, the Board of Directors has appointed a Compliance Officer for the Company, Atty. Virgilio S. Jacinto. The Compliance Officer is responsible for monitoring compliance by the Company with the provisions and requirements of the Manual, as may be amended from time to time, applicable laws and the rules and regulations of the relevant regulatory agencies.

The Compliance Officer holds the position of Senior Vice President and has direct reporting responsibilities to the Chairman of the Board.

In the regular board meeting held on August 10, 2017, the Board approved the adoption by the Corporate Governance Committee, and the Related Party Transactions Committee of their respective Charters, as reviewed and endorsed by each Committee. The approval of the adoption by the Audit and Risk Oversight Committee of its Charter was approved by the Board on August 13, 2012 upon the endorsement of the Audit Committee. The Charters of the Audit and Risk Oversight Committee, the Corporate Governance Committee, and the Related Party Transactions Committee each outline the purpose, membership and qualifications, structure and operations, duties and responsibilities, reporting process and performance evaluation of the said Board Committees, and the procedures which shall guide the conduct of its functions, to ensure adherence by the Company to the best practices of good corporate governance. The full texts of said Charters may be viewed at the Company's corporate website at <https://www.sanmiguel.com.ph/page/companys-policies>.

The Company submits its Integrated Annual Corporate Governance Reports (I-ACGR) in accordance with SEC Memorandum Circular No. 15, series of 2017. Such I-ACGRs are posted in the Company's corporate website at <https://www.sanmiguel.com.ph/disclosures/i/annual-corporate-governance-report-acgr> for the guidance of the investing public.

The Company encourages its directors and officers to attend continuous professional education programs.

The Company organizes an annual seminar or program on Corporate Governance for directors and key officers, in accordance with SEC regulations.

Pursuant to the Company's 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 and its stockholders.

### **Shareholder and Investor Relations**

The Company responds to information request from the investing community and keeps shareholders informed through timely disclosures to the PSE and SEC, annual shareholders meeting, investors briefing and conferences, the website of the Company and responses to email and telephone queries. The disclosures of the Company and other filings with the PSE and SEC are available for viewing and download from the website of the Company.

The Company through the Investor Relations Group under Corporate Finance holds regular briefings and meetings with investment and financial analysts.

### **Family Relationships**

Mr. John Paul L. Ang is the son of Mr. Ramon S. Ang. There are no other family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

### **Involvement in Certain Legal Proceedings**

None of the directors, 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, excluding traffic violations and other minor offenses, (c) order, judgment or decree of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their 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 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 years up to the date that is material to the evaluation of his or her ability or integrity to hold the relevant position in the Company.

### **Compensation of Directors and Executive Officers**

## Compensation

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and four (4) senior executive officers of the Company are as follows:

| NAME                                                                                           | YEAR                | SALARY            | BONUS             | OTHERS            | TOTAL             |
|------------------------------------------------------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| Total Compensation of the Chief Executive Officers and Senior Executive Officers <sup>15</sup> | 2021<br>(estimated) | ₱170.4<br>Million | ₱41.9<br>Million  | ₱19.2<br>Million  | ₱231.5<br>Million |
|                                                                                                | 2020                | ₱182.4<br>Million | ₱15.6<br>Million  | ₱37.6<br>Million  | ₱235.6<br>Million |
|                                                                                                | 2019                | ₱222.6<br>Million | ₱141.1<br>Million | ₱48.6<br>Million  | ₱412.3<br>Million |
| All other officers and directors as a group unnamed                                            | 2021<br>(estimated) | ₱238.5<br>Million | ₱58.9<br>Million  | ₱62.4<br>Million  | ₱359.8<br>Million |
|                                                                                                | 2020                | ₱257.8<br>Million | ₱33.9<br>Million  | ₱66.3<br>Million  | ₱358.0<br>Million |
|                                                                                                | 2019                | ₱258.5<br>Million | ₱92.6<br>Million  | ₱63.2<br>Million  | ₱414.3<br>Million |
| TOTAL                                                                                          | 2021<br>(estimated) | ₱408.9<br>Million | ₱100.8<br>Million | ₱81.6<br>Million  | ₱591.3<br>Million |
|                                                                                                | 2020                | ₱440.2<br>Million | ₱49.5<br>Million  | ₱103.9<br>Million | ₱593.6<br>Million |
|                                                                                                | 2019                | ₱481.1<br>Million | ₱233.7<br>Million | ₱111.8<br>Million | ₱826.6<br>Million |

Section 10 of the Amended By-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively. In 2020, the members of the Board of Directors and officers of the Company were paid an aggregate amount of ₱593.6million.

<sup>15</sup> The Chief Executive Officer and Senior Executive Officers of the Company for 2021 are Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, Virgilio S. Jacinto and Joseph N. Pineda. For 2020 and 2019, they are Eduardo M. Cojuangco, Jr.(†), Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Virgilio S. Jacinto.

The Long-Term Incentive Plan for Stock Options (“**LTIP**”) of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company's shareholders.

On November 10, 2005, the Company approved the grant of stock options to 1,096 executives and middle managers of about 4.43 million shares based on the closing price of the Company’s shares, computed in accordance with the LTIP. Also on March 1, 2007, the Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and 26, 2008, the Company approved the grant of options to 755 executives consisting of 5.77 million shares and to 742 executives consisting of 7.46 million shares, respectively. At the end of 2018, there are no more outstanding options to purchase the shares of the Company arising from the LTIP.

As of June 30, 2020, there are no more outstanding options under the LTIP held by the Chief Executive Officer and Senior Executive Officers of the Company, and officers and middle managers as a group.

There were no employment contracts between the Company and a named executive officer. There were neither compensatory plans nor arrangements with respect to a named executive officer.

#### **Other Arrangements**

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

#### **Employment Contract**

In lieu of an employment contract, the directors are elected at the annual meeting of stockholders for a one (1) year term. Any director elected in the interim will serve for the remaining term until the next annual meeting.

#### **Warrants or Options**

There are no outstanding warrants or options held by the Company’s President, named executive officers and all directors and officers as a group.



## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

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### **Related Party Transactions**

SMC, certain subsidiaries and their shareholders and associates and joint ventures, in the ordinary course of business, have entered into transactions with affiliates and other related parties, principally consisting of advances and sale and purchase of services and/or products.

Transactions with related parties are entered into on an arm's length basis. See Note 33 to SMC's audited consolidated financial statements as of and for the years ended December 31, 2020 for more detailed information.

Receivables from related parties totalled ₱17,682 million as of December 31, 2020.

## SELECTED FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated statement of financial position data as of December 31, 2018, December 31, 2019 and December 31, 2020, and summary historical consolidated statement of income and cash flow data for the years ended December 31, 2018, December 31, 2019 and December 31, 2020 set forth below, have been derived from, and should be read in conjunction with, the audited consolidated financial statements of SMC, including the notes thereto, included elsewhere in this Prospectus.

The consolidated financial statements of SMC as of and for the years ended December 31, 2018, 2019, and 2020 were audited by R.G. Manabat & Co.

Unless otherwise stated, SMC has presented its consolidated financial results under PFRS.

Potential investors should read the following data together with the more detailed information contained in “Management’s Discussion and Analysis of Results of Operations” and the consolidated financial statements and related notes included elsewhere in this Prospectus. The following data is qualified in its entirety by reference to all of that information.

### Consolidated Statement of Income Data

|                                                                        | For the years ended<br>December 31, |               |               |
|------------------------------------------------------------------------|-------------------------------------|---------------|---------------|
|                                                                        | 2018                                | 2019          | 2020          |
|                                                                        | (Audited)<br>(in millions)          |               |               |
|                                                                        | ₱                                   | ₱             | ₱             |
| Sales .....                                                            | 1,024,943                           | 1,020,502     | 725,797       |
| Cost of sales .....                                                    | 825,748                             | 818,815       | 576,449       |
| Gross Profit .....                                                     | 199,195                             | 201,687       | 149,348       |
| Selling and Administrative expenses .                                  | (82,110)                            | (85,972)      | (77,872)      |
| Interest expense and other financing charges                           | (45,496)                            | (56,019)      | (52,035)      |
| Interest income .....                                                  | 7,192                               | 10,675        | 6,182         |
| Equity in net earnings (losses) of associates and joint ventures ..... | (289)                               | 105           | 417           |
| Gain (loss) on sale of investments and property and equipment .....    | 252                                 | (237)         | (491)         |
| Other income (charges) – net .....                                     | (5,628)                             | 6,848         | 11,861        |
| Income before income tax .....                                         | 73,116                              | 77,087        | 37,410        |
| Income tax expense .....                                               | - 24,468                            | 28,513        | 15,531        |
| <b>Net income</b> .....                                                | <b>48,648</b>                       | <b>48,574</b> | <b>21,879</b> |
| <b>Attributable to:</b>                                                |                                     |               |               |
| Equity holders of SMC .....                                            | 23,077                              | 21,329        | 2,973         |
| Non-controlling interests.....                                         | 25,571                              | 27,245        | 18,906        |
|                                                                        | <u>48,648</u>                       | <u>48,574</u> | <u>21,879</u> |
| Earnings (loss) per common share attributable to equity holders of SMC |                                     |               |               |
| Basic and Diluted .....                                                | <u>6.61</u>                         | <u>5.93</u>   | <u>(1.66)</u> |

| As of December 31, |      |      |
|--------------------|------|------|
| 2018               | 2019 | 2020 |

|                                                                      | (Audited)<br>(in millions) |                  |                  |
|----------------------------------------------------------------------|----------------------------|------------------|------------------|
|                                                                      | P                          | P                | P                |
| <b>ASSETS</b>                                                        |                            |                  |                  |
| <b>Current Assets</b>                                                |                            |                  |                  |
| Cash and cash equivalents .....                                      | 243,150                    | 286,457          | 347,209          |
| Trade and other receivables - net.....                               | 129,893                    | 136,488          | 124,369          |
| Inventories .....                                                    | 118,946                    | 127,463          | 102,822          |
| Current portion of biological assets — net.....                      | 4,245                      | 4,151            | 3,401            |
| Prepaid expenses and other current assets.....                       | 92,043                     | 86,585           | 94,610           |
| <b>Total Current Assets</b> .....                                    | <u>588,277</u>             | <u>641,144</u>   | <u>672,411</u>   |
| <b>Noncurrent Assets</b>                                             |                            |                  |                  |
| Investments and advances — net .....                                 | 50,519                     | 52,861           | 50,495           |
| Investment in equity and debt instruments.....                       | 42,126                     | 42,055           | 41,766           |
| Property, plant and equipment — net.....                             | 594,372                    | 463,614          | 511,624          |
| Rights-of-use assets — net .....                                     | -                          | 173,604          | 169,208          |
| Investment property — net.....                                       | 31,829                     | 51,779           | 60,678           |
| Biological assets — net of current portion.....                      | 2,844                      | 2,808            | 2,352            |
| Goodwill — net .....                                                 | 130,852                    | 130,073          | 129,733          |
| Other intangible assets — net.....                                   | 146,608                    | 149,014          | 169,532          |
| Deferred tax assets.....                                             | 19,249                     | 18,052           | 20,946           |
| Other noncurrent assets — net .....                                  | 69,966                     | 92,730           | 83,462           |
| <b>Total Noncurrent Assets</b> .....                                 | <u>1,088,365</u>           | <u>1,176,590</u> | <u>1,239,796</u> |
| <b>Total assets</b> .....                                            | <u>1,676,642</u>           | <u>1,817,734</u> | <u>1,912,207</u> |
| <b>LIABILITIES AND EQUITY</b>                                        |                            |                  |                  |
| <b>Current Liabilities</b>                                           |                            |                  |                  |
| Loans payable .....                                                  | 184,024                    | 169,492          | 140,645          |
| Accounts payable and accrued expenses.....                           | 149,764                    | 176,037          | 153,249          |
| Lease liabilities — current portion .....                            | 19,699                     | 24,979           | 25,759           |
| Income and other taxes payable .....                                 | 19,901                     | 21,185           | 20,998           |
| Dividends payable .....                                              | 4,042                      | 4,116            | 4,231            |
| Current maturities of long-term debt — net of debt issue costs..     | 55,697                     | 43,808           | 74,502           |
| <b>Total Current Liabilities</b> .....                               | <u>433,127</u>             | <u>439,617</u>   | <u>419,384</u>   |
| <b>Noncurrent Liabilities</b>                                        |                            |                  |                  |
| Long-term debt — net of current maturities and debt issue costs..... | 561,918                    | 638,996          | 692,407          |
| Deferred tax liabilities .....                                       | 22,899                     | 25,265           | 27,749           |
| Lease liabilities — net of current portion.....                      | 122,367                    | 117,269          | 91,278           |
| Other noncurrent liabilities — net of current portion.....           | 24,384                     | 22,192           | 26,301           |
| <b>Total Noncurrent Liabilities</b> .....                            | <u>731,568</u>             | <u>803,722</u>   | <u>837,735</u>   |
| <b>Total Liabilities</b> .....                                       | <u>1,164,695</u>           | <u>1,243,339</u> | <u>1,257,119</u> |
| <b>Equity</b>                                                        |                            |                  |                  |
| <b>Equity Attributable to Equity Holders of SMC</b>                  |                            |                  |                  |
| Capital stock — common .....                                         | 16,443                     | 16,443           | 16,443           |
| Capital stock — preferred .....                                      | 10,187                     | 10,187           | 10,187           |
| Additional paid-in capital .....                                     | 177,938                    | 177,938          | 177,719          |
| Capital Securities.....                                              | —                          | —                | 28,171           |
| Equity reserves .....                                                | 21,513                     | 14,390           | 10,131           |
| Retained earnings:                                                   |                            |                  |                  |
| Appropriated.....                                                    | 72,820                     | 56,689           | 60,155           |
| Unappropriated.....                                                  | 148,345                    | 173,092          | 162,204          |
| Treasury stock .....                                                 | (109,501)                  | (116,283)        | (110,146)        |
| <b>Total Equity Attributable to Equity Holders of SMC</b> .....      | <u>337,745</u>             | <u>332,456</u>   | <u>354,864</u>   |
| Non-controlling interest .....                                       | 174,202                    | 241,939          | 300,224          |
| <b>Total Equity</b> .....                                            | <u>511,947</u>             | <u>574,395</u>   | <u>655,088</u>   |
|                                                                      | <u>1,676,642</u>           | <u>1,817,734</u> | <u>1,912,207</u> |

# **Consolidated Statement of Cash Flows Data**

|                                                                     | For the years ended |           |          |
|---------------------------------------------------------------------|---------------------|-----------|----------|
|                                                                     | December 31,        |           |          |
|                                                                     | 2018                | 2019      | 2020     |
|                                                                     | (Audited)           |           |          |
|                                                                     | (in millions)       |           |          |
|                                                                     | ₱                   | ₱         | ₱        |
| Net cash provided by (used in):                                     |                     |           |          |
| Operating activities .....                                          | 59,772              | 92,195    | 50,854   |
| Investing activities .....                                          | (196,313)           | (112,040) | (82,629) |
| Financing activities .....                                          | 174,015             | 66,756    | 101,979  |
| Effect of exchange rates changes in cash and cash equivalents ..... | (397)               | (3,604)   | (9,452)  |
| Net increase in cash and cash equivalents                           | 37,077              | 43,307    | 60,752   |
| Cash and cash equivalents at beginning of period                    | 206,073             | 243,150   | 286,457  |
| Cash and cash equivalents at end of period                          | 243,150             | 286,457   | 347,209  |

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of San Miguel Corporation ("SMC" 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                                      | <b>₱725,797</b>         | ₱1,020,502           | ₱1,024,943 |
| Cost of Sales                              | <b>576,449</b>          | 818,815              | 825,748    |
| Gross Profit                               | <b>149,348</b>          | 201,687              | 199,195    |
| Selling and Administrative Expenses        | <b>(77,872)</b>         | (85,972)             | (82,110)   |
| Operating Income                           | <b>71,476</b>           | 115,715              | 117,085    |
| Financing Charges - net                    | <b>(45,853)</b>         | (45,344)             | (38,304)   |
| Equity in Net Earnings (Losses) of         |                         |                      |            |
| Associates and Joint Ventures              | <b>417</b>              | 105                  | (289)      |
| Gain (Loss) on Sale of Investments and     |                         |                      |            |
| Property and Equipment                     | <b>(491)</b>            | (237)                | 252        |
| Other Income (Charges) - Net               | <b>11,861</b>           | 6,848                | (5,628)    |
| Net Income                                 | <b>21,879</b>           | 48,574               | 48,648     |
| Net Income Attributable to Equity          |                         |                      |            |
| Holders of the Parent Company              | <b>2,973</b>            | 21,329               | 23,077     |
| Net Income Attributable to Non-controlling |                         |                      |            |
| Interests                                  | <b>18,906</b>           | 27,245               | 25,571     |

### 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 ₱725,797 million and ₱71,476 million, 29% and 38% 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 ₱576,449 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 ₱77,872 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 ₱21,879 million, 55% lower than the same period in the previous year. Consolidated net income in the second half amounted to ₱25,867 million, 15% higher than same period last year, reversing the first half net loss of ₱3,988 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 ₱279,290 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 ₱33,412 million, a 30% decline, while net income closed at ₱22,401 million, down 31% from last year.

**a. Beer and NAB Division**

San Miguel Brewery Inc. (SMB) recorded consolidated sales of ₱107,928 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 ₱24,467 million, down 37%, and net income stood at ₱17,455 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 ₱97,828 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 ₱23,259 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 ₱36,202 million, up 25% from the previous year's ₱29,063 million.

With better operational efficiencies and effective alcohol sourcing, operating income amounted to ₱3,806 million, up 32% versus 2019. Net income hit ₱2,757 million, 65% higher from 2019 - the highest ever recorded by GSMI.

### c. Food Division

The Food division's consolidated sales declined by 3% to ₱135,170 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 ₱5,185 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 "*techon 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 ₱125/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 ₱31,504 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 ₱961 million.

## 3. ENERGY

SMC Global registered full year sales of ₱115,029 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 ₱36,923 million. Net income, on the other hand, amounted to ₱18,874 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 U.S.\$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 ₱2,823 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 ₱286,033 million, down 44% from the previous year. Volumes were likewise down 27% to 78.6 million barrels. Petron recorded consolidated operating loss of ₱4,629 million and net loss of ₱11,413 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 ₱14,565 million, 38% lower than the previous year, while operating income ended 78% lower at ₱2,571 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 had its soft opening on 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 ₱1,020,502 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 ₱818,815 million, slightly lower than 2018 at ₱825,748 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 5% to ₱85,972 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 1% at ₱115,715 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 (BankCom) 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 ₱1.945 versus other charges - net in 2018 where the Philippine Peso depreciated by ₱2.65. This resulted to a foreign exchange gain of ₱5,422 million in 2019 compared to a foreign exchange loss of ₱9,714 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 ₱48,574 million, at par from 2018.

Share of non-controlling interests increased in 2019 mainly due to the higher amount of distribution on SMC Global's USCS and SPCS and the Food and Beverage business' higher net income, partly offset by lower net income of Petron.

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 ₱310,785 million, 9% higher than the ₱286,378 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 ₱47,781 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 ₱32,279 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 ₱142,272 million and ₱38,720 million, respectively. Net income grew 14% to ₱27,285 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 ₱1,672 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 ₱29,063 million, up 17%. Operating income hit ₱2,878 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 ₱139,459 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 ₱3,449 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 ₱37,874 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 ₱3,598 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 ₱135,060 million, 12% higher than the ₱120,103 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 ₱35,954 million from 2018, while net income surged 73% to ₱14,364 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 U.S.\$69 per barrel in 2018 to U.S.\$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 ₱514,362 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 ₱16,199 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 ₱2,303 million, down by 67% from 2018's ₱7,069 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 ₱23,406 million, while operating income amounted to ₱11,444 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 ₱6,002 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 ₱1,657 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)<sup>16</sup>**

On various dates in 2020, AAIPC availed of a total of ₱11,000 million from the ₱41,200 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 ₱8,000 million from the ₱18,000 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 ₱5,000 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 U.S.\$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 U.S.\$1,000 million term loan facility and U.S.\$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 U.S.\$1,000 million term loan facility.

- **MPPCL**

On March 31, 2020, MPPCL drew U.S.\$43 million from the U.S.\$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 U.S.\$1,950 million from the remainder of the term loan facility amounting to U.S.\$2,000 million for general corporate purposes. The loan is subject to floating interest rate and will mature on September 27, 2024.

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<sup>16</sup> On April 5, 2021, the SEC approved the change in corporate name of AAIPC to SMC Tollways Corporation.



## **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 ₱15,000 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 ₱8,000 million and ₱7,000 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 BankCom 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 ₱14,810 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 ₱10,810 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 U.S.\$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 U.S.\$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 U.S.\$1,350 million. These are as follows:

| AMOUNT                                          | ISSUANCE/<br>LISTING DATE                      | ISSUE<br>PRICE | DISTRIBUTIO<br>N RATE | USE OF PROCEEDS                                                                                                                                                                                                        |
|-------------------------------------------------|------------------------------------------------|----------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| U.S.\$600 million                               | Issued Jan 21,<br>2020; Listed Jan 22,<br>2020 | 100%           | 5.7%                  | For the funding requirements of the development and completion of the BESS projects and for general corporate purposes.                                                                                                |
| U.S.\$400 million<br>("Original Securities")*   | Issued Oct 21,<br>2020; Listed Oct<br>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. |
| U.S.\$350 million<br>("Additional Securities")* | Issued Dec 15,<br>2020; Listed Dec<br>16, 2020 | 102.457<br>%   | 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 ₱15,555 million, ₱6,794 million, ₱6,262 million, ₱4,148 million, ₱882 million and ₱1,257 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 ₱17,300 million from the ₱41,200 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 ₱12,000 million from its ₱42,000 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 ₱10,000 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 ₱10,000 million from its ₱18,000 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 ₱2,000 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 ₱16,000 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 U.S.\$536 million and U.S.\$264 million loans, respectively, from its U.S.\$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 U.S.\$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 U.S.\$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 U.S.\$50 million from its term loan facility amounting to U.S.\$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 ₱60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global and Issuance of ₱30,000 Million Bonds**

On March 29, 2019, the SEC approved the shelf registration of up to ₱60,000 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 ₱30,000 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 ₱10,000 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 ₱10,000 million and ₱2,810 million, respectively. The Series E and C bonds formed part of the ₱20,000 million and ₱38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

## **PAYMENT OF MATURING OBLIGATIONS**

In 2019, the Group paid ₱14,382 million of maturing obligations funded by cash generated from operations.

The Infrastructure, Energy and Packaging business paid a total of ₱8,642 million, ₱4,511 million and ₱1,031 million, respectively, of their maturing long-term debt.

## **ISSUANCE AND REDEMPTION OF EQUITY AND CAPITAL SECURITIES**

### **Issuance of U.S.\$1,300 Million SPCS by SMC Global**

On April 25, 2019, SMC Global issued U.S.\$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 U.S.\$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 U.S.\$500 million SPCS (the “2<sup>nd</sup> 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 U.S.\$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 U.S.\$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 ₱20,000 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 ₱1,000.00 per share. Petron paid ₱7,122 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 ₱75.00 per share, and paid ₱6,782 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 ₱10,000 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 ₱1,912,207 million, ₱94,473 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 ₱60,752 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 U.S.\$500 million and U.S.\$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 ₱12,119 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 ₱24,641 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 ₱1,206 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 ₱8,025 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 ₱48,010 million was mainly due to the: (a) on-going 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 ₱8,899 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 ₱20,518 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 ₱2,894 million was mainly due to the recognition of deferred tax on NOLCO by Petron and SMYPC.

The decrease in other noncurrent assets by ₱9,268 million was due to the: (a) application of advances to contractors on progress billings by Citra Central Expressway Corp. (CCEC)<sup>17</sup> 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 ₱28,847 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 ₱22,788 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 ₱84,105 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 increase in deferred tax liabilities by ₱2,484 million was due to the higher deferred tax liability recognized by the Energy business arising from the differences in actual PSALM payments over finance lease liability-related expenses, offset by the recognition of deferred tax on NOLCO for the year by Petron.

The decrease in lease liabilities, net of current portion, by ₱25,991 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 ₱4,109 million was mainly due to the: (a) recognition by MPMC 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 balance of capital securities in 2020 amounting to ₱28,171 million pertains to the US\$500 million SPCS and ₱4,000 million RPS issued by SMC, net of documentary stamp taxes and other expenses directly related to the issuances.

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<sup>17</sup> On March 3, 2021, the SEC approved the change in corporate name of CCEC to SMC Skyway Stage 3 Corporation.

The decrease in equity reserves by ₱4,259 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 ₱3,466 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<sup>18</sup> 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 ₱10,888 million was mainly due to the dividends declared and distributions paid by SMC.

The decrease in treasury stock by ₱6,137 million represents issuance by SMC of 266,666,667 SMC2J Preferred Shares and 183,904,900 SMC2K Preferred Shares, reduced by the redemption by SMC of 279,406,667 SMCP1 Preferred Shares and 89,333,400 SMC2D Preferred Shares.

The increase in non-controlling interests by ₱58,285 million was mainly due to the: (a) issuance of US\$1,350 million SPCS by SMC Global, (b) consolidation of NCC through SMEII effective August 12, 2020 and (c) issuance of ₱1,500 million RPS by SMEII on July 1, 2020, offset by the: (c) redemption of Series "2" Preferred Shares by SMFB, and (d) 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 | ₱61,456        |
| Reissuance of treasury shares                        | 33,574         |
| Issuance of capital securities - net                 | 28,063         |
| Net income during the year                           | 21,879         |
| Cash dividends and distributions                     | (31,622)       |
| Redemption of preferred shares                       | (27,656)       |
| Other comprehensive loss                             | (5,001)        |
|                                                      | <b>₱80,693</b> |

#### **2019 vs. 2018**

Consolidated total assets as at December 31, 2019 amounted to ₱1,817,734 million, ₱141,092 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 ₱43,307 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 ₱6,595 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 ₱8,517 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.

<sup>18</sup> On February 22, 2021, the SEC approved the change in corporate name of Citra Metro Manila Tollways Corporation to SMC Skyway Corporation



The decrease in prepaid expenses and other current assets by ₱5,458 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<sup>19</sup>. 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 increase in investments and advances by ₱2,342 million was attributable to the reclassification of SMHC's investment in MNHPI from investment in subsidiary to investment in a joint venture. This was offset by the reclassification by SMC Global of its investment in MPGC to investment in subsidiary.

The decrease in property, plant and equipment by ₱130,758 million and corresponding increase in right-of-use assets by ₱173,604 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 ₱19,950 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 ₱1,197 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 ₱22,764 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 ₱14,532 million was mainly due to net payment made by Petron and deconsolidation of MNHPI.

The increase in accounts payable and accrued expenses by ₱26,273 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 ₱5,280 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 ₱1,284 million was mainly due to the higher taxable income of SMB.

The increase in total long-term debt, net of debt issue costs, by ₱65,189 million was due to the: (a) issuance of ₱30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the U.S.\$800 million long-term loan facility by Petron, and (c) issuance of ₱16,000 million long-term corporate notes, ₱10,000 million fixed-rate Peso-denominated bonds and U.S.\$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 increase in deferred tax liabilities by ₱2,366 million was mainly attributable to the temporary differences arising from interest and foreign exchange translation of US Dollar-denominated finance lease liabilities of SPPC, SMEC and SPDC. This was offset by the decrease in deferred tax liability of Petron due to recognition of NOLCO for 2019.

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<sup>19</sup> On March 3, 2021, the SEC approved the change in corporate name of CCEC to SMC Skyway Stage 3 Corporation.

The decrease in other noncurrent liabilities by ₱2,192 million was mainly due to the deconsolidation of MNHPI.

The decrease in equity reserves by ₱7,123 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 ₱16,131 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 ₱24,747 million was primarily due to the reversal of appropriations and net income for the year, reduced by cash dividends declared.

The increase in treasury shares by ₱6,782 million was due to the redemption by SMC of its 90,428,200 Series "2-B" Preferred Shares.

The increase in non-controlling interests by ₱67,737 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:

| <i>(In millions)</i>                                 |                |
|------------------------------------------------------|----------------|
| Net addition to non-controlling interests and others | ₱59,893        |
| Net income during the period                         | 48,574         |
| Cash dividends and distributions                     | (30,724)       |
| Redemption of Series "2-B" Preferred Shares          | (6,782)        |
| Other comprehensive loss                             | (6,091)        |
|                                                      | <b>P64,870</b> |

## III. CASH FLOW

### SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

|                                                    | <b>December 31</b> |                      |             |
|----------------------------------------------------|--------------------|----------------------|-------------|
|                                                    | <b>2020</b>        | <b>2019</b>          | <b>2018</b> |
|                                                    |                    | <i>(In Millions)</i> |             |
| Net cash flows provided by operating activities    | <b>₱50,854</b>     | ₱92,195              | ₱59,772     |
| Net cash flows used in investing activities        | <b>(82,629)</b>    | (112,040)            | (196,313)   |
| Net cash flows provided by in financing activities | <b>101,979</b>     | 66,756               | 174,015     |

Net cash flows 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:

|                                                                          | <b>December 31</b> |                      |             |
|--------------------------------------------------------------------------|--------------------|----------------------|-------------|
|                                                                          | <b>2020</b>        | <b>2019</b>          | <b>2018</b> |
|                                                                          |                    | <i>(In Millions)</i> |             |
| Additions to property, plant and equipment                               | <b>(₱63,837)</b>   | (₱66,805)            | (₱47,323)   |
| Increase in other noncurrent assets and others                           | <b>(24,472)</b>    | (54,338)             | (40,494)    |
| Additions to investments and advances and investment in debt instruments | <b>(4,031)</b>     | (2,169)              | (20,021)    |
| Interest received                                                        | <b>6,402</b>       | 10,549               | 6,537       |

|                                                                         |              |         |          |
|-------------------------------------------------------------------------|--------------|---------|----------|
| Dividends received                                                      | <b>1,344</b> | 1,886   | 1,906    |
| Cash and cash equivalents of a consolidated (deconsolidated) subsidiary | <b>1,053</b> | (626)   | -        |
| Proceeds from sale of investments and property and equipment            | <b>912</b>   | 871     | 1,139    |
| 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:

| <b>December 31</b>                                                                    |                 |                      |                 |
|---------------------------------------------------------------------------------------|-----------------|----------------------|-----------------|
|                                                                                       | <b>2020</b>     | <b>2019</b>          | <b>2018</b>     |
|                                                                                       |                 | <i>(In Millions)</i> |                 |
| Net proceeds from long-term borrowings                                                | <b>₱101,524</b> | <b>₱72,778</b>       | <b>₱176,814</b> |
| Net proceeds from issuance of capital securities and preferred shares of subsidiaries | <b>67,799</b>   | 85,733               | 24,881          |
| Proceeds from reissuance of treasury shares                                           | <b>33,588</b>   | -                    | -               |
| Net proceeds from issuance of capital securities                                      | <b>28,171</b>   | -                    | -               |
| Cash dividends and distributions paid                                                 | <b>(31,508)</b> | (30,652)             | (29,706)        |
| Net proceeds from (payments of) short-term borrowings                                 | <b>(28,588)</b> | (10,532)             | 32,305          |
| Redemption of preferred shares                                                        | <b>(27,656)</b> | (6,782)              | -               |
| Payments of lease liabilities                                                         | <b>(24,825)</b> | (20,673)             | (25,698)        |
| Redemption of capital securities and preferred shares of subsidiaries                 | <b>(15,000)</b> | (22,305)             | (39,769)        |
| Decrease in non-controlling interests and others                                      | <b>(1,526)</b>  | (811)                | (91)            |
| Proceeds from follow-on offering of common shares of a subsidiary                     | -               | -                    | 35,083          |
| Proceeds from issuance of capital stock                                               | -               | -                    | 196             |

The effect of exchange rate changes on cash and cash equivalents amounted to (₱9,452) million, (₱3,604) million and (₱397) million in 2020, 2019 and 2018, respectively.

#### IV. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of ₱67,093 million in 2020, 2019 and 2018, representing the cost of common shares held in treasury.

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.

| <b>December 31</b>   |             |             |
|----------------------|-------------|-------------|
|                      | <b>2020</b> | <b>2019</b> |
| Liquidity:           |             |             |
| Current Ratio        | <b>1.60</b> | 1.46        |
| Quick Ratio          | <b>1.12</b> | 0.96        |
| Solvency:            |             |             |
| Debt to Equity Ratio | <b>1.92</b> | 2.16        |

|                                                                               | <b>December 31</b> |       |
|-------------------------------------------------------------------------------|--------------------|-------|
|                                                                               | <b>2020</b>        | 2019  |
| Asset to Equity Ratio                                                         | <b>2.92</b>        | 3.16  |
| Profitability:                                                                |                    |       |
| Return on Average Equity Attributable to Equity Holders of the Parent Company | <b>0.87%</b>       | 6.36% |
| Interest Rate Coverage Ratio                                                  | <b>1.72</b>        | 2.38  |
| Return on Assets                                                              | <b>1.17%</b>       | 2.78% |
| Operating Efficiency:                                                         |                    |       |
| Volume Growth (Decline)                                                       | <b>(20%)</b>       | 3%    |
| Revenue Growth (Decline)                                                      | <b>(29%)</b>       | 0%    |
| Operating Margin                                                              | <b>10%</b>         | 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 ₱111,845 million as at December 31, 2020.

Amount authorized but not yet disbursed for capital projects is approximately ₱255,100 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 24 (c) and 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.

## **EXTERNAL AUDIT FEES AND SERVICES**

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The Parent Company paid the external auditor Audit Fees amounting to ₱17 million in 2020, ₱9 million in 2019 and ₱32 million in 2018. Said fees include compensation for audit services and other related services such as audit review and research work. 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.

The stockholders approve the appointment of the external auditors of the Company. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the Board of Directors and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit and Risk Oversight Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence.

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

## INTEREST OF NAMED EXPERTS AND COUNSEL

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### Legal Matters

Certain legal matters as to Philippine law relating to the Offer will be passed upon by Picazo Buyco Tan Fider & Santos (“**Picazo Law**”), the Company’s legal counsel, and SyCip Salazar Hernandez & Gatmaitan Law Offices (“**SyCip Law**”), legal counsel to the Underwriters. Each of the foregoing legal counsel has neither our shareholdings nor any right, whether legally enforceable or not, to nominate persons or to subscribe to our securities. None of the legal counsel will receive any direct or our indirect interest in any securities thereof (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

Picazo Law and SyCip Law may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that Picazo Law and SyCip Law provide such services to its other clients.

### Independent Auditors

The consolidated financial statements of the Company as at and for the years ended December 31, 2018, 2019, and 2020 have been audited by R.G. Manabat & Co., a member firm of KPMG, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus.

The Audit and Risk Oversight Committee of the Company, reviews and monitors, among others, the integrity of all financial reports and ensures compliance with both internal financial management manual and pertinent accounting standards, including regulatory requirements. The Audit Committee and Risk Oversight also performs the following duties and responsibilities relating to the services of the Company’s external auditors:

- Asses and monitor the (i) external auditor’s professional qualifications, competence, independence and objectivity and require the external auditor to make the statements necessary under applicable auditing standards as regards its relationship and services to the Company, discussing any relationship or services which may derogate its independence or objectivity; and (ii) the effectiveness of the audit process in accordance with applicable standards.
- Obtain objective assurance from the external auditor that the conduct of the audit and the manner of the preparation of the financial statements comply with applicable auditing standards and rules of regulatory bodies, including exchanges on which the securities of the Company are listed.
- Review and approve the nature and scope of the audit plans of the external auditor, including scope, audit resources and expenses, and reporting obligations before the audit commences.
- Review the reports or communications of the external auditor and ensure that management or the Board will provide a timely response to the issues raised in such reports or communications.
- Ensure the development and implementation of policies on the engagement of an external auditor to supply non-audit work, including the fees payable therefor, and evaluate any non-audit work undertaken by the external auditor to ensure that the same does not conflict with its audit functions.

There is no arrangement that experts and independent counsels will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

# TAXATION

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*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus. The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.*

PROSPECTIVE PURCHASERS OF THE BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

*As used in this section, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “non-resident alien” is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.” A “resident foreign corporation” is a non-Philippine corporation engaged in trade or business within the Philippines; and a “non-resident foreign corporation” is a non-Philippine corporation not engaged in trade or business within the Philippines.*

*The term “non-resident holder” means a holder of the Bonds:*

- *who is an individual who is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and*
- *should an income tax treaty be applicable, whose ownership of the Bonds is not effectively connected with a fixed base or a permanent establishment in the Philippines.*

## **Philippine Taxation**

*On January 1, 2018, Republic Act No. 10963, otherwise known as the “Tax Reform for Acceleration and Inclusion” (“**TRAIN**”) Act, took into effect. The TRAIN Act amended provisions of the Tax Code including provisions on Documentary Stamp Tax, tax on interest income and other distributions, Estate Tax, and Donor's Tax.*

*On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (“**CREATE**”) bill was signed into Republic Act No. 11534 (“**RA 11534**”). RA 11534 serves as a follow-up to Package 1 of TRAIN Act. The main amendment of CREATE is the reduction of the regular corporate income tax rate for both domestic and foreign corporations from 30% to 25%. CREATE also incorporated fiscal incentives such as income tax holiday, special corporate income tax rate of 5%, enhanced deductions, and duty and value-added tax (VAT) exemptions that may be granted to registered business enterprises.*

## **Taxation of Interest**

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income on short-term bonds, with maturities of less than five (5) years derived by Philippine citizens and alien resident individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign



corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

Interest income on long-term bonds, with maturities of five (5) or more years, are generally exempt from final withholding tax. If such long-term bond is pre-terminated before the fifth (5<sup>th</sup>) year, it shall be subject to a final withholding tax at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

| <b>Holding Period</b>                       | <b>Rate</b> |
|---------------------------------------------|-------------|
| Four (4) years to less than five (5) years  | 5%          |
| Three (3) years to less than four (4) years | 12%         |
| Less than three (3) years                   | 20%         |

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

#### ***Tax-Exempt Status or Entitlement to Preferential Tax Rate***

The tax authorities have prescribed certain procedures for availment of tax treaty relief on interest under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (CORTT) Form by the non-resident before interest is credited. The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within thirty (30) days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Bank, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate or ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Bank withheld taxes, or withheld the regular rate of tax imposed pursuant to the Tax Code on interest, the concerned bondholder may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty.

#### ***Value-Added Tax***

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

#### ***Gross Receipts Tax***

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax

on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

|                                         |    |
|-----------------------------------------|----|
| Maturity period is five years or less   | 5% |
| Maturity period is more than five years | 1% |

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

|                                         |    |
|-----------------------------------------|----|
| Maturity period is five years or less   | 5% |
| Maturity period is more than five years | 1% |

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and non-bank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

### ***Documentary Stamp Tax***

A documentary stamp tax is imposed upon the original issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

### ***Taxation On Sale Or Other Disposition Of The Bonds***

#### **Income Tax**

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income, which will then be subjected to the graduated regular or ordinary tax rates of 20-35% effective January 1, 2018 until December 31, 2022 and 15%-35% effective January 1, 2023 for individuals who are Philippine citizens, whether residents or non-residents, or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines, 25% final withholding tax for non-resident alien not engaged in trade or business, 30% Regular Corporate Income Tax ("RCIT") or 2% Minimum Corporate Income Tax ("MCIT"), as the case may be, for domestic and resident foreign corporations, and 30% final withholding tax for non-resident foreign corporations, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

On March 26, 2021, the CREATE bill was signed into law, thereby reducing of the regular corporate income tax rate for both domestic and foreign corporations from 30% to 25%. However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

### **Estate and Donor's Tax**

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at 6%. For transfers through donation, the Bondholder shall be subject to donor's tax of 6% computed on the basis of the total gifts in excess of ₱250,000.00 exempt gift made during the calendar year.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, the transfer of the Bonds made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

### **Documentary Stamp Tax**

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange, provided that such sale or disposition does not constitute a renewal or extension of maturity of the Bonds or carried with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones. However, if the transfer constitutes a renewal or extension of the maturity of the Bonds, documentary stamp tax is payable anew.

### **Taxation Outside the Philippines**

The tax treatment of non-resident holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines.

# REGULATORY FRAMEWORK

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*The statements herein are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the regulatory and environmental considerations that may be relevant to the Company or the offering.*

## GENERAL BUSINESS REGULATORY FRAMEWORK

### Revised Corporation Code

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law on February 20, 2019 and took effect on February 23, 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Revised Corporation Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Philippine SEC that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations, and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20.0% independent directors in the Board, in accordance with the Securities and Regulation Code. The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, a judgment or final order of a foreign court is, through the institution of an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Philippine SEC.
- The Revised Corporation Code allows the creation of a “One Person Corporation”. However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- As to the filing of the by-laws and any amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Revised Corporation Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

- A favourable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Philippine SEC approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Philippine SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Philippine SEC.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

### **The Philippine Competition Act**

Republic Act No. 10667, otherwise known as the Philippine Competition Act, was signed into law on July 21, 2015 and took effect on August 8, 2015. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (“PCC”), an independent quasi-judicial agency to be composed of five commissioners. Among the PCC’s powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitors, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to the PCC for its approval.

On June 3, 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act (“IRR”). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1.0 billion; (Size of Party) and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR (Size of Transaction); while Parties to a joint venture transaction shall also be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1.0 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1.0 billion.

The PCC also has released its “Guidelines on the Computation of Merger Notification Thresholds”, providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to the PCC.

On March 1, 2018, the PCC issued Memorandum Circular No. 18-001, which adjusted the thresholds for the compulsory notification of mergers and acquisitions from ₱1 billion for both the Size of Person and Size of Transaction tests to ₱5 billion for the Size of Person and ₱2 billion for the Size of Transaction as defined in the Implementing Rules and Regulations. In addition, parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion.

The same memorandum circular also provided that unless otherwise modified or repealed by the Commission, the thresholds set out in Rule 4, Section 3 of the Implementing Rules and Regulations, as amended, shall be automatically adjusted commencing on March 1, 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal Gross Domestic Product ("GDP") growth of the previous calendar year rounded up to the nearest hundred millions. The annual nominal GDP from 2017 to 2018 grew by 10.2%.

Based on the nominal GDP growth, in a PCC resolution issued on February 11, 2020 the PCC adjusted the notification thresholds as follows:

| <i>Adjusted Thresholds to be Implemented</i> |                                 |                                                    |
|----------------------------------------------|---------------------------------|----------------------------------------------------|
| <i>Test</i>                                  | <b>Old Threshold<br/>(2019)</b> | <b>New Threshold<br/>(effective March 1, 2020)</b> |
| <i>Size of Person Test</i>                   | ₱5.6 billion                    | ₱6 billion                                         |
| <i>Size of Transaction Test</i>              | ₱2.2 billion                    | ₱2.4 billion                                       |

This means that the value of the assets or revenues of the Ultimate Parent Entity ("UPE") of at least one of the parties must exceed ₱6 billion instead of ₱5.6 billion. The UPE is the entity that, directly or indirectly, controls a party to the transaction, and is not controlled by any other entity. In addition, the value of the assets or revenues of the acquired entity must exceed ₱2.4 billion instead of ₱2.2 billion. Both thresholds must be breached in order for the compulsory notification requirement to apply. As to joint venture transactions, notification is mandatory if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.4 billion; or (b) the gross revenues generated in the Philippines by the assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.4 billion. The new thresholds will not apply to (a) transactions already pending review with the PCC, (b) notifiable transactions consummated before March 1, 2020, and (c) transactions already decided by the PCC.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5.0% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offenses. Administrative fines of ₱100.0 million to ₱250.0 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On September 15, 2017, the PCC published the 2017 Rules of Procedure ("Rules") which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On September 10, 2019, the Supreme Court of the Philippines approved the Rules on Administrative Search and Inspection under the Philippine Competition Act. The rules govern the application, issuance, and enforcement of inspection orders for administrative investigations of alleged violations of the Philippine Competition Act. Inspection orders will allow the PCC and its deputized agents to enter, search and inspect business premises, offices, land and vehicles to examine, copy, photograph, record or print information in order to prevent their removal, concealment, tampering with or destruction.

On September 11, 2020, in response to the COVID-19 pandemic, President Rodrigo Duterte signed into law Republic Act No. 11494, otherwise known as the "Bayanihan to Recover as One Act" which became effective on September 15, 2020. Under the Bayanihan to Recover as One Act, all mergers and acquisitions entered into within a period of two (2) years from its effectivity, with transaction values below ₱50 billion shall be exempt from compulsory notification under the PCA. In addition, the PCC's power to review mergers and acquisitions *motu proprio* shall be suspended for one (1) year from effectivity of the Bayanihan to Recover as One Act. The PCC issued Memorandum Circular No. 20-003 reiterating the foregoing exemptions and clarified that mergers and acquisitions entered into prior to the Bayanihan to Recover as One Act which exceed the following

thresholds: (a) Size of Party exceeds ₱6.0 billion; and (b) Size of Transaction exceeds ₱2.4 billion, are still subject to compulsory notification under the PCA, and all mergers and acquisitions entered into prior to the effectivity of the Bayanihan to Recover as One Act may still be subject to the motu proprio review of the PCC. On October 5, 2020, the PCC issued the Rules for the Implementation of Section 4 (eee) of Republic Act No. 11494, Otherwise Known as the “Bayanihan to Recover as One Act”, Relating to the Review of Mergers and Acquisitions.

### Foreign Investments Act of 1991

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 (“FIA”), liberalized the entry of foreign investment into the Philippines. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the “**Negative List**”). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40.0%. A corporation with more than 40.0% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations organized under the laws of the Philippines at least 60.0% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term Philippine National is defined under the FIA as any of the following:

- a citizen of the Philippines;
- a domestic partnership or association wholly-owned by citizens of the Philippines;
- a corporation organized under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
- a corporation organized abroad and registered to do business in the Philippines under the Revised Corporation Code, of which 100.0% of the capital stock outstanding and entitled to vote is wholly-owned by Filipinos; or
- a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60.0% of the fund will accrue to the benefit of Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, the Supreme Court affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the “**Narra Nickel Case**”), the Supreme Court affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders’ own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative

application shall be observed as follows: (i) if the corporation's Filipino equity falls below 60.0%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

### **Land Ownership**

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens.

### **Intellectual Property Code**

Under the Intellectual Property Code of the Philippines, the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal government agency involved in the registration of brand names, trademarks, patents and other registrable intellectual property materials.

Upon registration, the Intellectual Property Office shall issue a certificate of registration to the owner of the mark, which shall confer the right to prevent all third parties not having the owner's consent from using in the course of trade identical or similar signs or containers for goods or services which are identical or similar to those in respect of which the mark is registered. The said certificate of registration shall also serve as prima facie evidence of the validity of registration and the registrant's ownership of the mark. A certificate of registration shall remain in force for an initial period of ten (10) years and may be renewed for periods of ten (10) years at its expiration.

### **Data Privacy Act of 2012**

Republic Act No. 10173 or the Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right to privacy of data subjects by: (a) protecting the privacy of individuals while ensuring free flow of information; (b) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure or destruction of personal data; and (c) ensuring that the Philippines complies with international standards set for data protection through National Privacy Commission ("**Privacy Commission**").

Intended to protect the privacy of individuals, it mandates companies to inform the individuals about how their personal information are collected and processed. It also ensures that all personal information must be (a) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (b) handled properly, ensuring its accuracy and retention only for as long as reasonably needed; and (c) discarded properly to avoid access by unauthorized third parties.

Its Implementing Rules and Regulations ("**IRR**") took effect on September 9, 2016, mandating all Philippines companies to comply with the following: (a) appointment of a Data Protection Officer; (b) conduct of a privacy impact assessment; (c) adoption of a privacy management program and privacy policy; (d) implement privacy and data protection measures; and (e) establish a breach reporting procedure. In addition, companies with at least 250 employees or access to sensitive personal information of at least 1,000 individuals are required to register their data processing systems with the Privacy Commission. The IRR, furthermore provides the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

### **Electronic Commerce Act**



Republic Act No. 8792 or the Electronic Commerce Act of 2000 (“**R.A. No. 8792**”) aims to facilitate domestic and international dealings, transactions, arrangement agreements, contracts and exchanges and storage of information through the utilization of electronic, optical and similar medium to promote the universal use of electronic transaction in the government and general public.

R.A. No. 8792 restricts access to an electronic file, or an electronic signature of an electronic data message or electronic document only in favor of the individual or entity having a legal right to the possession or the use of plaintext, electronic signature or file and solely for the authorized purposes. The law also ensures confidentiality and prohibits any person who obtains access to any electronic key, electronic data message, electronic document, book, register, correspondence, information, or other material pursuant to any powers conferred under the said law, from conveying to or sharing the same with any other person, except for purposes expressly authorized by law. The implementing rules of the law provides that the electronic key for identity or integrity shall not be made available to any person or party without the consent of the individual or entity in lawful possession of that electronic key.

The law clarifies that violations of the Consumer Act of the Philippines or Republic Act No. 7394 and other related laws through transactions covered by or using electronic data messages or electronic documents shall be penalized with the same penalties as provided therein.

### **Registration under the BOI**

Under the Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with the BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25.0% of the estimated project cost, or as may be prescribed by the BOI. Such incentives include: (i) income tax holiday, (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spare parts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

On April 12, 2019, Republic Act No. 11285, otherwise known as the Energy Efficiency and Conservation Act, was enacted. Under the said law, upon certification by the DOE, energy efficiency projects shall be included in the annual investment priorities plan of the BOI and shall be entitled to the incentives provided under Executive Order No. 226, as amended, and any other applicable laws for 10 years from the effectivity of the Act. Said energy efficiency projects shall also be exempt from the requirements provided under Article 32(1) of Executive Order No. 226. Energy efficiency projects refer to projects designed to reduce energy consumption and costs by any improvement, repair, alteration, or betterment of any building or facility, or any equipment, fixture, or furnishing to be added to or used in any building, facility, or vehicle including the manufacturing and provision of services related thereto: provided, that such projects shall be cost-effective and shall lead to lower energy or utility costs during operation and maintenance.

### **Local Government Code**

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (“**LGC**”) establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every LGU shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power is exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, order the closure of business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

## **Labor and Employment**

The Department of Labor and Employment (“DOLE”) is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

### ***Social Security System, PhilHealth, and the Pag-IBIG Fund***

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the SSS. Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations. This enables the employees or their dependents to claim their pension, death benefits, permanent disability benefits, funeral benefits, sickness benefits and maternity-leave benefits.

The failure of the employer to comply with any of its obligations may lead to sanctions, including the imposition of a fine of not less than ₱5,000.00 nor more than ₱20,000.00, or imprisonment for not less than six years and one day nor more than 12 years, or both, at the discretion of the court. The erring employer will also be liable to the SSS for damages equivalent to the benefits to which the employee would have been entitled had his name been reported on time to the SSS and for the corresponding contributions and penalties thereon.

Employers are likewise required to ensure enrolment of its employees in a National Health Insurance Program (“NHIP”) administered by the Philippine Health Insurance Corporation, a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013.

On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program. An employer who fails or refuses to register its employees, regardless of their employment status, or to deduct contributions from its employees’ compensation or remit the same to our Corporation shall be punished with a fine of not less than ₱5,000.00 multiplied by the total number of employees of the firm.

Under Republic Act No. 9679, the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund. It is a national savings program as well as a fund to provide for affordable shelter financing to Filipino workers. Coverage under the HDMF is compulsory for all SSS members and their employers. Under the law, an employer must deduct and withhold 2.0% of the employee’s monthly compensation, up to a maximum of ₱5,000.00, and likewise make a counterpart contribution of 2.0% of the employee’s monthly compensation, and remit the contributions to the HDMF. Refusal of an employer to comply, without any lawful cause or with fraudulent intent, particularly with respect to registration of employees as well as collection and remittance of contributions, is punishable by a fine of not less but not more than twice the amount involved, or imprisonment of not more than six years, or both such fine and imprisonment. When the offender is a corporation, the penalty will be imposed upon the members of the governing board and the president or general manager, without prejudice to the prosecution of related offenses under the Revised Penal

Code and other laws, revocation and denial of operating rights and privileges in the Philippines and deportation when the offender is a foreigner.

### ***The Labor Code***

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private-sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six months being considered as one whole year. For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: fifteen days' salary based on the latest salary rate; in addition, one-twelfth of the thirteenth month pay and the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

### ***Other Labor-Related Laws and Regulations***

#### **Contracting and Subcontracting**

The Labor Code recognizes subcontracting arrangements, whereby a principal puts out or farms out with a contractor the performance or completion of a specific job, work or service within a definite or predetermined period, regardless of whether such job, work or service is to be performed or completed within or outside the premises of the principal. Such arrangements involve a "trilateral relationship" among: (i) the principal who decides to farm out a job, work or service to a contractor; (ii) the contractor who has the capacity to independently undertake the performance of the job, work, or service; and (iii) the contractual workers engaged by the contractor to accomplish the job, work, or service.

On March 16, 2017, the DOLE issued DOLE Department Order No. 174-17 or Rules Implementing Articles 106 to 109 of the Labor Code, as Amended ("**D.O. No. 174-17**"), under the principle that non-permissible forms of contracting and subcontracting arrangements undermine the constitutional and statutory right to security of tenure of workers. D.O. No. 174-17 empowered the Secretary of Labor and Employment to regulate contracting and subcontracting arrangement by absolutely prohibiting labor-only contracting, and restricting job contracting allowed under the provisions of the Labor Code. Labor-only contracting refers to arrangement where the contractor or subcontractor merely recruits, supplies or places workers to perform a job or work for a principal, and the contractor or subcontractor does not have substantial capital, or the contractor or subcontractor does not exercise the right to control over the performance of the work of the employee. D.O. No. 174-17 expressly requires the registration of contractors with the Regional Office of the DOLE where it principally operates, without which, a presumption that the contractor is engaged in labor-only contracting arises.

The Department Order provides that in the event that there is a finding that the contractor or subcontractor is engaged in labor-only contracting and other illicit forms of employment arrangements, the principal shall be deemed the direct employer of the contractor's or subcontractor's employees. Further, in the event of violation of any provision of the Labor Code, including the failure to pay wages, there exists a solidary liability on the part of the principal and the contractor for purposes of enforcing the provisions of the Labor Code and other social legislations, to the extent of the work performed under the employment contract.

#### **DOLE Mandated Work-Related Programs**

Under Republic Act No. 9165 or the Comprehensive Dangerous Drugs Act, a national drug abuse prevention program implemented by the DOLE must be adopted by private companies with 10 or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution, also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the

employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, Department Order No. 102-10 requires all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it are strictly limited to medical personnel.

All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and tuberculosis prevention and control.

## **REGULATIONS RELATING TO THE FOOD AND BEVERAGE BUSINESS**

### **The Food Safety Act**

In 2013, Republic Act No. 10611 or the Food Safety Act of 2013 (the “**Food Safety Act**”) was enacted into law to strengthen the food safety regulatory system in the country. The food safety regulatory system encompasses all the regulations, food safety standards, inspection, testing, data collection, monitoring and other activities carried out by the DA and the DOH, their pertinent bureaus, and the local government units. The National Dairy Authority, National Meat Inspection Service (“**NMIS**”), and Bureau of Fisheries and Aquatic Resources (“**BFAR**”) under the DA are the government agencies responsible for the development and enforcement of food safety standards and regulations in the primary production and post-harvest stages for milk, meats, and fish, respectively, while the Food and Drug Administration (“**FDA**”) under the DOH is responsible for the safety of processed and pre-packaged foods. The Food Safety Act created the Food Safety Regulation Coordinating Board to monitor and coordinate the performance and implementation of the mandates of the government agencies under the law.

The law aims to: (a) protect the public from food-borne and water-borne illnesses and unsanitary, unwholesome, misbranded or adulterated foods, (b) enhance industry and consumer confidence in the food regulatory system, and (c) achieve economic growth and development by promoting fair trade practices and sound regulatory foundation for domestic and international trade.

To protect consumer interest, the Food Safety Act seeks to prevent the adulteration, misbranding, fraudulent practices and practices which mislead the consumer, and prevent misrepresentation in the labelling and false advertising in the presentation of food. The DA and DOH are mandated to set food safety standards, which are the requirements that food or food processors have to comply with to safeguard human health.

The law likewise mandates the use of Science-based risk analysis in food safety regulation and prescribes the adoption of precautionary measures when the available relevant information for use in risk assessment is insufficient to show a certain type of food or food product does not pose a risk to consumer health.

In addition, food imported, produced, processed and distributed for domestic and export markets should comply with the following requirements: (a) food to be imported into the country must come from countries with an equivalent food safety regulatory system; (b) imported foods shall undergo cargo inspection and clearance procedures by the DA and DOH at the first port of entry to determine compliance with national regulations; and (c) exported food shall at all times comply with national regulations and regulations of the importing country.

The Food Safety Act imposes the following responsibilities on Food Business Operators (“**FBO**”): (a) FBO shall be knowledgeable of the specific requirements of food law with respect to their activities in the food supply chain and the procedures adopted by relevant government agencies, and adopt, apply and be well informed of codes and principles for good practices; (b) in the event a FBO considers or has reason to believe that food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it shall immediately initiate procedures to recall the product and inform the regulator; (c) FBO shall allow inspection of their businesses and collaborate with the regulatory authorities to avoid risks posed by

the food product/s which they have supplied; and (d) where the unsafe or noncompliant food product may have reached the consumer, it shall effectively and accurately inform the consumers of the reason for the withdrawal, and if necessary, recall the same from the market.

For the enforcement of the Food Safety Act, the food safety regulatory agencies are authorized to perform regular inspection of food business operators taking into consideration the compliance with mandatory safety standards; implementation of the Hazard Analysis at Critical Control Points (“HACCP”) or the science-based system that identifies, evaluates, and controls hazards for food safety at critical points; good manufacturing practices; and other requirements of regulations. It is prohibited to refuse access to pertinent records or entry of inspection officers of the food safety regulatory agencies. It is likewise prohibited, among others, to produce, handle, or manufacture for sale, offer for sale, distribute in commerce, or import any food or food product, which is banned or is not in conformity with applicable quality or safety standard. The commission of any of the prohibited acts under the Food Safety Act can result in imprisonment and/or a fine.

The implementing rules and regulations of the Food Safety Act requires all food businesses, including large and medium scale food businesses engaged in the manufacture of processed and pre-packaged food, to have a Food Safety Compliance Officer (“FSCO”) who has passed a prescribed training course for FSCO recognized by the DA and/or the DOH.

FBOs producing processed and pre-packaged food should develop a Risk Management Plan as basis for the issuance of appropriate authorizations by the DOH. If an FBO considers or has reason to believe that a food which it produced, processed, distributed or imported is not safe or not in compliance with food safety requirements, it should immediately initiate procedures to withdraw the food in question from the market and inform the regulatory authority in accordance with the approved product recall program.

FBOs should also report any incident where its product has caused or contributed to the death, serious illness or serious injury to a consumer or any person. The product should be withdrawn from the market, in accordance with the FBO’s respective product recall program, and disposed according to the procedures prescribed by the DA and/or the DOH.

The FDA may order a recall if: (a) a distributed product presents a risk of illness or injury or gross consumer deception, (b) the manufacturer or distributor has not initiated a recall, and (c) an agency action is necessary or advisable to protect the public health and welfare. The manufacturer or distributor will be notified of the decision to order a product recall. The notification will specify the violation, the health hazard classification, the recommended recall strategy to be undertaken, and any other instructions appropriate to the conduct of the recall. Within 24 hours after the FDA issues an order for product recall, the FDA will issue a Public Health Alert to alert consumers on serious health hazards or other situations deemed to be in the public interest.

A product recall may also be initiated by a manufacturer or distributor of a violative product (*i.e.*, the product presents a risk of injury or does not conform to registered specifications). The manufacturer or distributor should provide the FDA the following information: (a) identity of the product involved, (b) the reason for the removal or correction and the date and circumstances under which the product deficiency or possible deficiency was discovered, (c) evaluation of the risk associated with the deficiency or possible deficiency, (d) total amount of such products produced and/or the time span of the production, (e) total amount of such products estimated to be in distribution channels, (f) distribution information, including the number of distribution outlets and where necessary, the names and addresses of the distribution channels, (g) copy of the recall communication or proposed communication, (h) proposed strategy for conducting the recall, and (i) name and phone number of the official who should be contacted concerning the recall.

Products which have been subject of a recall must immediately be removed from the market and must not be allowed for distribution and sale. Upon completion of the recall procedure, the concerned company must notify the FDA of the final disposition of the product. If the product is to be destroyed, the destruction should be witnessed by an FDA representative. If the product has been reprocessed to comply with registered specifications, distribution and sale of the reprocessed product will only be allowed following a written recommendation from the FDA to do so.

The FDA may seize the products or seek other court action if a firm refuses to conduct an FDA-ordered recall or where the FDA has reason to believe that a recall would not be effective, a recall is ineffective, or discovers that a violation is continuing.

The DOH, through the FDA, is responsible for the assurance of safety of processed and pre-packaged food products, whether locally produced or imported, including meat products. Renewal of the registration of processed meat and licenses of establishments manufacturing, importing or exporting, selling, offering for sale, transferring, or distributing processed meat should be in accordance with the existing FDA guidelines on renewal of authorizations.

### **The Food, Drugs and Devices, and Cosmetics Act**

Republic Act No. 3720 or the Foods, Drugs and Devices, and Cosmetics Act, as amended by the FDA Act of 2009 (the “**FDDC Act**”), establishes standards and quality measures in relation to the manufacturing and branding of food products to ensure the safe supply thereof to and within the Philippines. The FDA is the governmental agency under the DOH tasked to implement and enforce the FDDC Act. The FDA requires both a license to manufacture food products, as well as individual certificates of registration for each product to be manufactured or sold in the Philippines.

The FDDC Act prohibits, among others, (i) the manufacture, importation, exportation, sale, offering for sale, distribution or transfer, non-consumer use, promotion, advertisement or sponsorship food products which are adulterated or misbranded or which, although requiring registration pursuant to the FDDC Act, are not registered with the FDA; and (ii) the manufacture, importation, exportation, transfer or distribution of any food product by any person or entity without a license to operate from the FDA. Any person found in violation of any of the provisions of the FDDC Act shall be subject to administrative penalties or imprisonment or both. Furthermore, the FDA has the authority to seize such food products found in violation of the FDDC Act as well as ban, recall and withdraw any food product found to be grossly deceptive, unsafe, or injurious to the consuming public.

### ***FDA Rules and Regulations***

Consistent with the mandate to adopt and establish mechanisms and initiatives that are aimed to protect and promote the right to health of every Filipino, the FDA issued the Rules and Regulations on the Licensing of Food Establishments and Registration of Processed Food, which require all food establishments to obtain a License to Operate (“**LTO**”) from the FDA before they can validly engage in the manufacture, importation, exportation, sale, offer for sale, distribution, and transfer of food products in the Philippine market. An initial LTO is valid for a period of two years, while a renewed license is valid for five years.

An LTO can be automatically renewed when (a) the application for renewal is filed before the expiration date of the license, (b) the prescribed renewal fee is paid upon filing of the application, and (c) a sworn statement indicating no change or variation in the establishment is attached to the application. An application for renewal of an LTO received after its date of expiration will be subject to a surcharge or penalty.

Further, the LTO subject of an application for renewal will be considered valid and subsisting until a decision or resolution by the FDA is rendered on the application for renewal as long as the application is filed within 120 days from LTO’s original expiry. The automatic renewal of an LTO should not preclude the FDA from suspending, revoking or cancelling the same in case the owner violates any of the terms and conditions of the license or other relevant laws and implementing rules and regulations. The assignment or transfer of a valid and unexpired LTO, or pending application for renewal without any change or variation whatsoever in the establishment requires a mere amendment of the LTO or the application, as the case maybe.

The manufacture, importation, exportation, sale, offering for sale, distribution, transfer, non-consumer use, promotion, advertising, or sponsorship of any health product without the proper authorization from the FDA is prohibited and punishable, by imprisonment and fine.

In addition to an LTO, the FDA also requires a Certificate of Product Registration (“**CPR**”) for processed food products before said products are distributed, supplied, sold or offered for sale or use in the market. A CPR covering a particular health product constitutes prima facie evidence of the registrant’s marketing authority for said health product in connection with the activities permitted pursuant to the registrant’s LTO.

For processed food products, the validity of an initial CPR is two years to five years, while a renewed CPR is valid for five years; provided that upon renewal, its holder conforms with the pertinent standards and requirements including labelling regulations.

A CPR may be automatically renewed provided that: (a) the registrant has a current and valid LTO, (b) the product is covered by a current and valid CPR, and (c) there are no deficiencies that need to be corrected before the renewal of the CPR can be granted. The application for renewal must be filed at least 90 days before the expiration of the CPR, although an application for renewal may still be filed within 60 days after the expiration date of the CPR, subject only to the payment of a surcharge.

An expired CPR that has not been renewed within the 60-day grace period cannot be the subject of a renewal application and will be considered an initial application for the registration of the product.

The operation of a food business without the proper authorization from the FDA is prohibited and punishable with a fine. The closure of the establishment may also be imposed as a penalty upon a finding of a commission of a prohibited act.

## **The Consumer Act**

Republic Act No. 7394 or the Consumer Act of the Philippines (the “**Consumer Act**”) is principally enforced by the DTI and seeks to: (i) protect consumers against hazards to health and safety, (ii) protect consumers against deceptive, unfair and unconscionable sales acts and practices; (iii) provide information and education to facilitate sound choice and the proper exercise of rights by the consumer; (iv) provide adequate rights and means of redress; and (v) involve consumer representatives in the formulation of social and economic policies.

This law imposes rules to regulate such matters as (i) consumer product quality and safety; (ii) the production, sale, distribution and advertisement of food, drugs, cosmetics and devices as well as substances hazardous to the consumer’s health and safety; (iii) fair, honest consumer transactions and consumer protection against deceptive, unfair and unconscionable sales acts or practices; (iv) practices relative to the use of weights and measures; (v) consumer product and service warranties; (vi) compulsory labelling and fair packaging; (vii) liabilities for defective products and services; (viii) consumer protection against misleading advertisements and fraudulent sales promotion practices; and (ix) consumer credit transactions.

The Consumer Act establishes quality and safety standards with respect to the composition, contents, packaging, labelling and advertisement of food products and prohibits the manufacture for sale, offer for sale, distribution, or importation of food products which are not in conformity with applicable consumer product quality or safety standards. Like the FDDC Act, the Consumer Act also prohibits the manufacture, importation, exportation, sale, offering for sale, distribution or transfer of food products which are adulterated or mislabelled. In connection therewith, the Consumer Act provides for minimum labelling and packaging requirements for food products to enable consumers to obtain accurate information as to the nature, quality, and quantity of the contents of food products available to the general public.

Under the Consumer Act, the following are the minimum labeling requirements for consumer products sold in the Philippines: (a) the correct and registered trade name or brand name; (b) the duly registered trademark; (c) the duly registered business name; (d) the address of the manufacturer, importer, repacker of the consumer product in the Philippines; (e) the general make or active ingredients; (f) the net quantity of contents, in terms of weight, measure or numerical count rounded off to at least the nearest tenths in the metric system; (g) the country of manufacture, if imported; and (h) if a consumer product is manufactured, refilled or repacked under license from a principal, the label shall so state the fact. Additional labeling requirements imposed by the Consumer Act for food products include: (a) expiry or expiration date, where applicable; (b) whether the consumer product is semi-processed, fully processed, ready-to-cook, ready-to-eat, prepared food or just plain mixture; (c) nutritive value, if any; and (d) whether the ingredients used are natural or synthetic, as the case may be.

Manufacturers, distributors, importers or re-packers of consumer products are required to indicate in their labels or packaging a parallel translation in the English or Filipino language of the nature, quality, quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (a) country of manufacture; (b) required information of consumption duration safety; (c) warranty of the manufacturer; (d) weight content prior to packaging; (e) consumer complaint desk address; and (f) all other information necessary for giving effect to a consumer’s right to information.

For alcoholic beverages, the alcohol content in terms of percentage volume or proof units shall be indicated on the label of alcoholic beverages.

The DTI is tasked with implementing the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters. With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA. Establishments engaged in these activities are required to comply with, among others, the current guidelines promulgated by the DOH on good manufacturing practice in manufacturing, packing, repacking, or holding food.

In addition, the Consumer Act prohibits the false, deceptive or misleading advertisements and sales promotions and deceptive sales acts and practices in connection with food products. An advertisement shall be false, deceptive or misleading if it is not in conformity with the provisions of the Consumer Act or if it is misleading in any material respect. In determining whether any advertisement is false, deceptive or misleading, there shall be taken into account, among other things, not only representations made or any combination thereof, but also the extent to which the advertisement fails to reveal material facts in the light of such representations, or materials with respect to consequences which may result from the use or application of consumer products or services to which the advertisement relates under the conditions prescribed in said advertisement, or under such conditions as are customary or usual.

Any person found in violation of the provisions of the Consumer Act shall be subject to administrative penalties and/or imprisonment of not less than one year but not more than five years, or a fine of not less than ₱5,000.00 but not more than ₱10,000.00 or both, at the discretion of the court. Should the offense be committed by a juridical person, the chairman of the board of directors, the president, general manager, or the partners and/or the persons directly responsible therefore shall be penalized. Under the Consumer Act, The DOH also has the authority to order the recall, ban, or seizure from public sale or distribution of food products found to be injurious, unsafe or dangerous to the general public.

### **The Livestock and Poultry Feeds Act**

Republic Act No. 1556 or the Livestock and Poultry Feeds Act and its implementing rules and regulations (the “**Livestock and Poultry Feeds Act**”), regulates and controls the manufacture, importation, labelling, advertising and sale of livestock and poultry feeds. The Bureau of Animal Industry (the “**BAI**”) is the governmental office under the DA tasked to implement and enforce the Livestock and Poultry Feeds Act.

Under the Livestock and Poultry Feeds Act, any entity desiring to engage in the manufacture, importation, exportation, sale, trading or distribution of feeds or other feed products must first register with the BAI. There must be a separate registration for each type and location of feed establishment. Furthermore, the Livestock and Poultry Feeds Act provides that no feeds or feed products may be manufactured, imported, exported, traded, advertised, distributed, sold, or offered for sale, or held in possession for sale in the Philippines unless the same has been registered with the BAI. There must also be a separate registration for each type, kind, and form of feed or feed product. Feeds and feed products produced through toll manufacturing shall be registered with the company that owns the same. All commercial feeds must comply with the nutrient standards prescribed by the DA. Registration of feed and feed products and feed establishments is required to be renewed on a yearly basis. The Livestock and Poultry Feeds Act also provides branding, labelling and advertising requirements for feeds and feed products and the establishment of in-house quality control laboratories by manufacturers and traders of feed and feed products. Any person found in violation of the provisions of the Livestock and Poultry Feeds Act shall be subject to administrative penalties or imprisonment or both.

The Company’s feedmills, whether Company-owned and tolled, are all registered with the BAI and we pay monthly inspection fees based on the number of metric tons of feeds produced. The Company also seeks approval from the BAI for brand names and register every new product prior to market launch. To obtain the brand name approval and product registration, the Company submits a notarized Application for Feed Product Registration, Certificate of Analysis and three copies of feed tags to be inserted in the packaging of the new product. Based on this information, the BAI makes a determination as to whether the new product is within its specifications.



## **The Meat Inspection Code**

Republic Act No. 9296 or the Meat Inspection Code of the Philippines (the “**Meat Inspection Code**”) establishes quality and safety standards for the slaughter of food animals and the processing, inspection, labelling, packaging, branding and importation of meat (including, but not limited to, pork, beef, and chicken meat) and meat products. The NMIS, a specialized regulatory service attached to the DA, serves as the national controlling authority on all matters pertaining to meat and meat product inspection and meat hygiene to ensure meat safety and quality from farm to table. It has the power to accredit meat establishments and exporters, importers, brokers, traders and handlers of meat and meat products. On the other hand, the different local government units, in accordance with existing laws, policies, rules and regulations and quality and safety standards of the DA, have the authority to regulate the construction, management and operation of slaughterhouses, meat inspection, and meat transport and post-abattoir control within their respective jurisdictions, and to collect fees and charges in connection therewith.

The Meat Inspection Code covers all meat establishments (including, but not limited to, slaughterhouses, poultry dressing plants, meat processing plants and meat shops) where food animals are slaughtered, prepared, processed, handled, packed, stored, or sold. It requires the inspection of food animals before it shall be allowed for slaughter in licensed private slaughterhouses in which meat or meat products thereof are to be sold. A post-mortem examination is also required for carcasses and parts thereof of all food animals prepared as articles of commerce which are capable of use as human food. Only meat or meat products from meat establishments that have passed inspection and have been so marked may be sold or offered for sale to the public.

Said Code also requires all meat establishments to (i) comply with the Animal Welfare Act of 1998 for the adequate protection of food animals awaiting slaughter and all pollution control and environmental laws and regulations relating to the disposal of carcasses and parts thereof; and (ii) adopt Good Manufacturing Practices and Sanitation Standard Operating Procedures programs for the production, storage and distribution of its meat products. Any person found in violation of the provisions of the Meat Inspection Code shall be subject to administrative penalties or imprisonment or both. Furthermore, any carcasses, parts of carcasses or products of carcasses found to have been prepared, handled, packed, stored, transported or offered for sale as human food not in accordance with the provisions thereof shall be confiscated and disposed of at the expense of the person found to be in violation thereof.

The DA requires all operators and/or owners of postharvest meat establishments to subject their facilities for evaluation for the issuance of an LTO by the NMIS.

The Company’s poultry processing plants and livestock slaughter plants, both Company-owned and tolled, are all accredited by NMIS. Since the Company’s plants have all been issued an LTO, CPR, and/or Export Commodity Clearance Certificate by the FDA, products from those plants qualify for distribution to any location throughout the Philippines or for export. Plant accreditations are renewed annually following inspection by NMIS for compliance with the Good Manufacturing Practices, Sanitation Standard Operating Procedures and Hazard Analysis and Critical Control Points. NMIS inspectors are also stationed at each of the Company’s poultry processing plants and livestock slaughter plants on a daily basis and issue certifications for each batch of products that is shipped from any of those plants.

## **The Price Act**

Republic Act No. 7581 or the Price Act provides for price controls for basic necessities and prime commodities in certain situations, pursuant to the policy of the government to ensure the availability of basic necessities and prime commodities at reasonable prices at all times without denying legitimate business a fair return on investment. Basic necessities include rice, corn, bread, fish, dried and canned fish and other marine products, fresh vegetables, pork, beef, poultry, milk, coffee and cooking oil, salt, laundry soap, detergents, firewood, charcoal, candles and drugs classified as essential by the DOH. Prime commodities include fresh fruits, flour, dried, processed and canned pork, beef and poultry meat, dairy products not falling under basic necessities, noodles, onions, garlic, vinegar, patis, soy sauce, toilet soap, fertilizer, pesticides, herbicides, poultry, swine and cattle feeds, paper, school supplies, electrical supplies, batteries, among others.

Under the Price Act, the prices of basic commodities may be automatically frozen at their prevailing prices or placed under automatic price control whenever:

1. That area is proclaimed or declared as a disaster area or under a state of calamity;

2. That area is declared under emergency;
3. The privilege of the writ of habeas corpus is suspended in that area;
4. That area is placed under martial law; or
5. That area is in a state of rebellion or war.

The President of the Philippines may likewise impose a price ceiling on basic necessities and prime commodities in cases of calamities, emergencies, illegal price manipulation or when the prevailing prices have risen to unreasonable levels. Unless sooner lifted by the President of the Philippines, prices shall remain frozen for a maximum of sixty days.

The DA, DTI, DENR and DOH are the implementing agencies responsible for the enforcement of the Price Act. The implementing government agencies of the Price Act are given the authority thereunder to issue suggested retail prices, whenever necessary, for certain basic necessities and/or prime commodities for the information and guidance of concerned trade, industry and consumer sectors.

The Price Act considers it unlawful for any person habitually engaged in the production, manufacture, importation, storage, transport, distribution, sale or other methods of disposition of goods to engage in illegal price manipulation of any basic necessity or prime commodity through:

1. Cartels, defined as any combination of or agreement between two or more persons engaged in the production, manufacture, processing, storage, supply, distribution, marketing, sale or disposition of any basic necessity or prime commodity designed to artificially and unreasonably increase or manipulate its price;
2. Hoarding, defined as the undue accumulation by a person or combination of persons of any basic commodity beyond his or their normal inventory levels or the unreasonable limitation or refusal to dispose of, sell or distribute the stocks of any basic necessity of prime commodity to the general public or the unjustified taking out of any basic necessity or prime commodity from the channels of reproduction, trade, commerce and industry; or
3. Profiteering, defined as the sale or offering for sale of any basic necessity or prime commodity at a price grossly in excess of its true worth.

Any person found in violation of the provisions of the Price Act shall be subject to administrative penalties or imprisonment or both.

### **The Philippine Food Fortification Act**

Republic Act No. 8976 or the Philippine Food Fortification Act of 2000 (the “**PFF Act**”) provides for the mandatory fortification of wheat flour, cooking oil and other staple foods and the voluntary fortification of processed food products. The fortification of food products is required to be undertaken by the manufacturers, importers and processors thereof. The FDA is the government agency responsible for the implementation of the PFF Act with the assistance of the different local government units which are tasked under the said law to monitor foods mandated to be fortified which are available in public markets, retail stores and foodservice establishments and to check if the labels of fortified products contain nutrition facts stating the nutrient added and its quantity. Any person in violation of the PFF Act shall be subject to administrative penalties. Furthermore, the FDA may refuse or cancel the registration or order the recall of food products in violation of said law.

All Magnolia-branded products are compliant with the PFF Act. For example, the Company uses iodized salt in Magnolia products to comply with Republic Act No. 8172 (An Act for Salt Iodization Nationwide).

For wheat flour, the addition of Vitamin A and Iron are mandated under standards set by the DOH. The Company’s flour business has been compliant with the requirements of the PFF Act since 2004.

### **Government Regulations on the Manufacture and Wholesale of Alcoholic Beverages**

Beverages are included in the definition of “food” and are within the coverage of the Food Safety Act. An LTO and other requirements specified in the Food Safety Act and its implementing rules and regulations are likewise necessary for establishments engaged in the manufacturing, importation, exportation, sale, offer for sale, distribution, transfer, use, testing, promotion, advertisement, and/or sponsorship of alcoholic beverages. Alcoholic beverages have been classified by the FDA as low risk food products in based on the Codex

Alimentarius General Standard for Food Additives and the UN Food and Agriculture Organization Risk Categories. Food establishments classified as high risk are prioritized for inspection by the FDA.

## **REGULATION RELATING TO THE PACKAGING BUSINESS**

### **Safety and Quality Regulations under the Consumer Act**

The DTI is tasked to implement the Consumer Act with respect to labels and packaging of consumer products other than food products, and regulates product labeling, proper and correct description of goods, product labels with foreign characters/languages, data/information on product contents and origins and other similar matters.

Manufacturers, distributors, importers or repackers of consumer products are required to indicate in their labels or packaging, a parallel translation in the English or Filipino language of the nature, quality and quantity and other relevant prescribed information or instructions of such consumer products in a manner that cannot be easily removed, detached or erased. In addition to the information required to be displayed in the principal and secondary panels, DTI Administrative Order No. 01-08 mandates that all consumer products sold in the Philippines, whether manufactured locally or imported shall indicate and specify the (i) country of manufacture; (ii) required information of consumption duration safety; (iii) warranty of the manufacturer; (iv) weight content prior to packaging; (v) consumer complaint desk address; and (vi) all other information necessary for giving effect to a consumer's right to information.

The packaging of consumer products must not cause the purchaser to be deceived as to the contents, size, quantity, measurement or fill of the product. For consumer products which are packaged in such a way that the contents cannot be seen or inspected upon purchase, samples or labeling describing the product inside the package, in words, in pictorial or graphical representation or by similar means, shall be provided for the inspection of the purchaser. Such sample or description should accurately represent the product in the package. With respect to the packaging and repackaging of food products, such activities are regulated by the DOH and the FDA as discussed above. Establishments engaged in these activities are required to comply with, among others, the current guidelines on good manufacturing practice in manufacturing, packing, repacking, or holding food promulgated by the DOH.

## **REGULATION RELATING TO THE FUEL AND OIL BUSINESS**

### **Oil Deregulation Act**

The Oil Deregulation Act provides the regulatory framework for the downstream oil industry of the country.

Under the Oil Deregulation Act, any person or entity may import or purchase any quantity of crude oil and petroleum products from foreign or domestic sources, lease or own and operate refineries and other downstream oil facilities, and market such crude oil and petroleum products either in a generic name or in its own trade name, or use the same for its own requirement, provided that, among others such person or entity complies with certain requirements such as giving of prior notice to the DOE for monitoring purposes. The same law declared as policy of the state the liberalization and deregulation of the downstream oil industry in order to ensure a truly competitive market under a regime of fair prices, adequate and continuous supply of environmentally clean and high-quality petroleum products.

To ensure the attainment of these objectives, the DOE, in consultation with relevant government agencies, promulgated the Implementing Rules and Regulations of the Oil Deregulation Act on March 11, 1998 through Department Circular No. 98-03-004. The rules require any person or entity engaged in any activity in the downstream oil industry to comply with the notice, reportorial, quality, health, safety and environmental requirements set forth therein.

The DOE is the leading Philippine government agency overseeing the oil sector. With the enactment of the Oil Deregulation Act, the regulatory functions of the DOE were significantly reduced. Deregulating the downstream oil industry effectively removed the rate-setting function of the then Energy Regulatory Board, leaving price-setting to market forces. The current function of the DOE is solely to monitor prices and violations under the law, which includes prohibited acts such as cartelization and predatory pricing.

Other functions of the DOE under the Oil Deregulation Act include the following:

- monitoring and publishing the daily international crude oil prices, following the movements of domestic oil prices, monitoring the quality of petroleum and stopping the operation of businesses involved in the sale of petroleum products which do not comply with national standards of quality;
- monitoring the refining and manufacturing processes of local petroleum products to ensure clean and safe technologies are applied;
- maintaining a periodic schedule of present and future total industry inventory of petroleum products to determine the level of supply;
- immediately acting upon any report from any person of an unreasonable rise in prices of petroleum products; and
- in times of national emergency, when the public interest so requires, during the emergency and under reasonable terms, temporarily taking over or directing the operations of any person or entity engaged in the industry.

### **Promotion of Retail Competition**

In November 2017, the DOE promulgated Department Circular No. DC 2017-11-011, or the Revised Rules and Regulations Governing the Business of Retailing Liquid Petroleum Products, (the “**Revised Retail Rules**”). The Revised Retail Rules apply to all persons engaged or intending to engage in the business of retailing liquid fuels such as gasoline, diesel, and kerosene.

A person intending to engage in the business of retailing liquid petroleum products must notify the Oil Industry Management Bureau (“**OIMB**”) of its intention to engage in such activity and, upon compliance with the requirements under the Revised Retail Rules, secure a certificate of compliance (“**Certificate of Compliance**”) from the OIMB. The certificate shall be valid for a period of five years. The owner or operator of a retail outlet shall be deemed to be engaged in illegal trading of liquid petroleum products if such owner or operator operates a retail outlet without a Certificate of Compliance. Storage and dispensing of liquid fuels that are for own-use operation shall not be covered by the Revised Retail Rules only upon issuance of a Certificate of Non-Coverage by the DOE.

The Revised Retail Rules likewise imposes: (i) mandatory standards and requirements for new retail outlets and minimum facility requirements for existing retail outlets; (ii) rules and procedures relating to fuel storage, handling, transfer and/or dispensing of liquid fuels; (iii) requirements of other types of retail outlets; (iv) the conduct of inspection and monitoring by the OIMB; (v) rules and procedures relating to liquid fuels quantity and quality; and (vi) fines and/or sanctions against prohibited acts.

Liquid petroleum products dispensed at retail outlets must comply with the Philippine National Standards. Prohibited acts include illegal trading, adulteration, underdelivering, refusal/ obstruction of inspection and sampling, hoarding, and continuing to operate after an order or notice of cessation of operation has been issued by the DOE. The refusal of inspection shall constitute prima facie evidence of the commission of prohibited acts under the Revised Retail Rules.

### **LPG Laws and Regulations**

#### ***B.P. 33***

Batas Pambansa Blg. 33, as amended by Presidential Decree No. 1865, provides for certain prohibited acts inimical to public interest and national security involving petroleum and/or petroleum products. These prohibited acts include, among others, (i) illegal trading in petroleum and/or petroleum products, and (ii) underdelivery or underfilling beyond authorized limits in the sale of petroleum products or possession of underfilled LPG cylinder for the purpose of sale, distribution, transportation, exchange or barter. For this purpose, the existence of the facts hereunder gives rise to the following presumptions:

- a. That cylinders containing less than the required quantity of LPG which are not properly identified, tagged and set apart and removed or taken out from the display area and made accessible to the public by marketers, dealers, sub-dealers or retail outlets are presumed to be for sale;
- b. In the case of a dispensing pump in a petroleum products retail outlet selling such products to the public, the absence of an out-of-order sign, or padlocks, attached or affixed to the pump to prevent delivery of petroleum products therefrom shall constitute a presumption of the actual use of the pump in the sale or delivery of such petroleum products; and

- c. When the seal, whether official or of the oil company, affixed to the dispensing pump, tank truck or LPG cylinder, is broken or is absent or removed, it shall give rise to the presumption that the dispensing pump is underdelivering, or that the LPG cylinder is underfilled, or that the tank truck contains adulterated finished petroleum products or is underfilled.

The use of such pumps, cylinders or containers referred to in sub-paragraph (a), (b), and (c) above, to deliver products for sale or distribution shall constitute prima facie evidence of intent of the hauler, marketer, refiller, dealer or retailer outlet operator to defraud.

Under the said law, "illegal trading in petroleum and/or petroleum products" is understood to mean, among others, (1) the sale or distribution of petroleum products without license or authority from the OIMB, (2) non-issuance of receipts by licensed oil companies, marketers, distributors, dealers, subdealers and other retail outlets, to final consumers; provided: that such receipts, in the case of gas cylinders, shall indicate therein the brand name, tare weight, gross weight, and price thereof, (3) refilling of LPG cylinders without authority from the Oil Industry Management Bureau, or refilling of another cylinders of a company or firm without written authorization of such Company or Firm, and (4) marking or using in such cylinders a tare weight other than the actual or true tare weight thereof.

"Underfilling" or "underdelivery" refers to a sale, transfer, delivery or filling of petroleum products of a quantity that is actually beyond authorized limits than the quantity indicated or registered on the metering device of container. This refers, among others, to the quantity of petroleum retail outlets or to LPG in cylinder or to lube oils in packages.

#### ***R.A. 9514 - IRR***

The Implementing Rules and Regulations of Republic Act No. 9514 or the Fire Code of 2008 also outlines requirements for storage and handling of LPG by outside bulk LPG stores and filling stations and the transportation of LPG which require, among others, that during the unloading or transfer of LPG, the tank truck shall be located or parked clear of a public thoroughfare, unless the failure to transfer would create a hazard or it is impossible due to topography.

#### ***LPG Industry Rules***

In January 2014, the DOE issued Department Circular 2014-01-0001, or the Rules and Regulations Governing the Liquefied Petroleum Gas Industry (the "**LPG Industry Rules**"). The LPG Industry Rules apply to all persons engaged or intending to engage in the business of importing, refining, refilling, marketing, distributing, handling, storing, retailing, selling and/or trading of LPG.

A Standards Compliance Certificate ("**SCC**") from the OIMB is required before engaging in any LPG Industry Activity. The SCC is valid for a maximum of three (3) calendar years from date of issue and may be renewed. LPG Industry participants must also submit certain reports to the OIMB.

The LPG Industry Rules also imposes (i) minimum standards and requirements for refilling and transportation of LPG; (ii) qualifications and responsibilities for LPG Industry participants such as bulk suppliers, refillers, marketers, dealers, and retail outlets.

Brand owners whose permanent mark appears on the LPG cylinder are presumed under the rules as the owner thereof, irrespective of their custody, and shall ensure that its cylinders comply with all required quality and safety standards. The owner of the cylinders is also required to secure product liability insurance for any liability that may result from an unsafe condition of LPG cylinders.

#### ***Rules Pertinent to Auto-LPG Motor Vehicles***

On February 13, 2007, the DOE issued DOE Circular No. DC 2007-02-0002 entitled "Providing for the Rules and Regulations Governing the Business of Supplying, Hauling, Storage, Handling, Marketing and Distribution of Liquefied Petroleum Gas for Automotive Use" (the "**Auto-LPG Rules**"). The Auto-LPG Rules govern the business of supplying, hauling, storage, handling, marketing and distribution of LPG for automotive use.

Under the rules, an Auto-LPG Industry Participant is required to secure from the DOE through the OIMB, an SCC before it can operate. The Auto-LPG also mandates all participants to observe a code of practice consisting of operational guidelines and procedures to ensure the safe operation in the auto LPG business. Illegal trading, adulteration and hoarding are likewise prohibited. Under the Auto-LPG Rules, the following shall constitute prima facie evidence of hoarding: (i) the refusal of Auto-LPG Dispensing Stations to sell LPG products for automotive use shortly before a price increase or in times of tight supply, and in both instances if the buyer or consumer has the ability to pay in cash for the product; (ii) the undue accumulation of Auto-LPG Dispensing Stations of LPG products for automotive use in times of tight supply or shortly before a price increase. For purposes of this Auto LPG Rules, "undue accumulation" shall mean the keeping or stocking of quantities of LPG products for automotive use beyond the inventory levels as required to be maintained by the Auto-LPG Dispensing Stations, for a period of thirty (30) days immediately preceding the period of tight supply or price increase.

The Land Transportation Office ("LTO") also issued Memorandum Circular No. RIB-2007-891 or the "Implementing Rules and Regulations in the Inspection and Registration of Auto-LPG Motor Vehicles". The Circular requires the device for the use of LPG as fuel by any motor vehicle to be installed only by the conversion/installing shop duly certified by the Bureau of Product and Standards ("BPS") of the DTI under its Philippine Standards Certification Mark ("PS Mark") scheme. The converted vehicle shall be subjected to an annual maintenance and inspection by the BPS certified conversion/installing shop. The BPS certified conversion/installing shop shall issue a corresponding Certificate of Inspection and Maintenance Compliance ("CIMC").

### **Oil Pollution Compensation Act of 2007**

Republic Act No. 9483, otherwise known as the Oil Pollution Compensation Act of 2007, imposes strict liability on the owner of the ship for any pollution damage caused within the Philippine territory. Pollution damage is the damage caused outside the ship by contamination due to the discharge of oil from the ship, as well as, the cost of preventive measures to protect it from further damage.

The law also provides that any person who has received more than 150,000 tons of "contributing oil" (as explained below) in a calendar year in all ports or terminal installations in the Philippines through carriage by sea shall pay contributions to the International Oil Pollution Compensation Fund in accordance with the provisions of the 1992 International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage. For this purpose, "oil" includes any persistent hydrocarbon mineral oil such as crude oil, fuel oil, heavy diesel oil and lubricating oil, whether carried on board a ship as cargo or in bunkers of such a ship.

A person shall be deemed to have received "contributing oil," for purposes of determining required contributions, if he received such oil from another country or from another port or terminal installation within the Philippines, notwithstanding that this oil had already been previously received by him. Where the quantity of contributing oil received by any person in the Philippines in a calendar year, when aggregated with the quantity of contributing oil received in the Philippines in that year by such person's subsidiaries or affiliates, exceeds 150,000 tons, such person, including its subsidiaries and affiliates, shall pay contributions in respect of the actual quantity received by each, notwithstanding that the actual quantity received by each did not exceed 150,000 tons. Persons who received contributing oil are required to report the quantity of such oil received to the DOE. Contributing oil means crude oil and fuel oil as defined under Republic Act No. 9483.

Republic Act No. 9483 provides for the establishment of a fund to be constituted from, among others, an impost amounting to ten centavos per liter levied on owners and operators and tankers and barges hauling oil and/or petroleum products in Philippine waterways and coast wise shipping routes. This new fund, named the Oil Pollution Management Fund, will be in addition to the requirement under the 1992 Civil Liability Convention and 1992 Fund Convention and will be administered by the MARINA.

In April 2016, the Department of Transportation and Communications (now the DOTr) promulgated the implementing rules and regulations of Republic Act No. 9483. Under the rules, oil companies are required to submit (a) reports on the amount of contributing oil received and (b) sales and delivery reports of persistent oil.

## **Other Regulatory Requirements**

Petroleum products are subject to Philippine National Standards specifications. The DTI, through the Bureau of Products Standards, ensures that all products comply with the specifications of the Philippine National Standards.

Philippine government regulations also require the following: fire safety inspection certificates; certificates of conformance of facilities to national or accepted international standards on health, safety and environment; product liability insurance certificates or product certificate of quality; and the ECC issued by the DENR for service stations and for environmentally-critical projects. Reports to the DOE are required for the following activities/projects relating to petroleum products: (a) refining, processing, including recycling and blending; (b) storing/transshipment; (c) distribution/ operation of petroleum carriers; (d) gasoline stations; (e) LPG refilling plant; (f) bunkering from freeports and special economic zones; and (g) importations of petroleum products and additives. In addition, importations of restricted goods require clearances from the proper Philippine government authorities.

## **Other Relevant Tax-related Regulations**

Taxes and duties applicable to the oil industry have had periodic and unpredictable changes over the last several years. The import duty on crude oil was increased on January 1, 2005 from 3.0% to 5.0% but was later reduced to 3.0% effective as of November 1, 2005.

Under Executive Order No. 527 dated May 12, 2006, upon certification by the DOE that the trigger price levels provided therein have been reached, the 3.0% import duty on crude oil shall be adjusted to 2.0%, 1.0% or 0%. Subsequently, Executive Order No. 850, which took effect on January 1, 2010, modified the rates of duty on certain imported articles in order to implement the Philippines' commitment to eliminate tariffs on certain products under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area. Under the ASEAN Trade in Goods Agreement, crude oil and refined petroleum products imported from ASEAN Member States are levied zero rates. To address the tariff distortion between ASEAN and non-ASEAN Member States brought about by the implementation of the zero duty under Executive Order No. 850 and to provide a level playing field for local refiners to compete with importers, the President of the Philippines issued Executive Order No. 890, which also imposed zero duty effective as of July 4, 2010 for imported crude oil and refined petroleum products, except certain types of aviation gas, from Non-ASEAN Member States.

Republic Act No. 9337, also known as the "Expanded VAT Law", imposed a VAT of 10.0% on certain goods and services, including petroleum products and its raw materials, particularly the sale and importation thereof. The rate was increased to 12.0% effective February 1, 2006. The Expanded VAT Law also limited the input VAT tax credit to only 70.0% of the output VAT. Subsequently, however, Republic Act No. 9361, which was approved on November 21, 2006, removed the 70.0% ceiling on the credit of input VAT to output VAT. As of November 1, 2005, the implementation date of the Expanded VAT Law, excise taxes on diesel, bunker fuel and kerosene were lifted and excise taxes for regular gasoline were lowered to ₱4.35 per liter of volume capacity. In February 2012, the BIR issued Revenue Regulation No. 2-2012 stating that VAT and excise taxes due on all petroleum and petroleum products that are imported and/or brought from abroad to the Philippines, including from the freeport and economic zones shall be paid by the importer to the Bureau of Customs.

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("TRAIN") took into effect. The TRAIN amended provisions of the Philippine Tax Code, among others, increasing excise tax rates of petroleum products. Excise tax rates on gasoline products were increased from ₱4.35 per liter to ₱7.00 per liter effective January 1, 2018, ₱9.00 per liter on January 1, 2019 and ₱10.00 per liter in January 1, 2020. Diesel and bunker fuel products which were previously not subject to excise taxes were imposed excise taxes at ₱2.50 per liter effective January 1, 2018 and increased further to ₱4.50 per liter on January 1, 2019 and ₱6.00 per liter on January 1, 2020.

Also, in compliance with the TRAIN, the Philippine government intends to implement a Philippine Fuel Marking Program in 2019 to mark imported and refined petroleum products such as gasoline, diesel and kerosene to ensure that all downstream fuels are tax and duty paid. Under the latest advisory of the Department of Finance, the Fuel Marking fee will be paid by the government to the Fuel Marking Service Provider for the first year of implementation. For the second to fifth year of implementation, said fee shall be borne by petroleum companies on top of duties and taxes to be collected by the Bureau of Customs or the BIR.

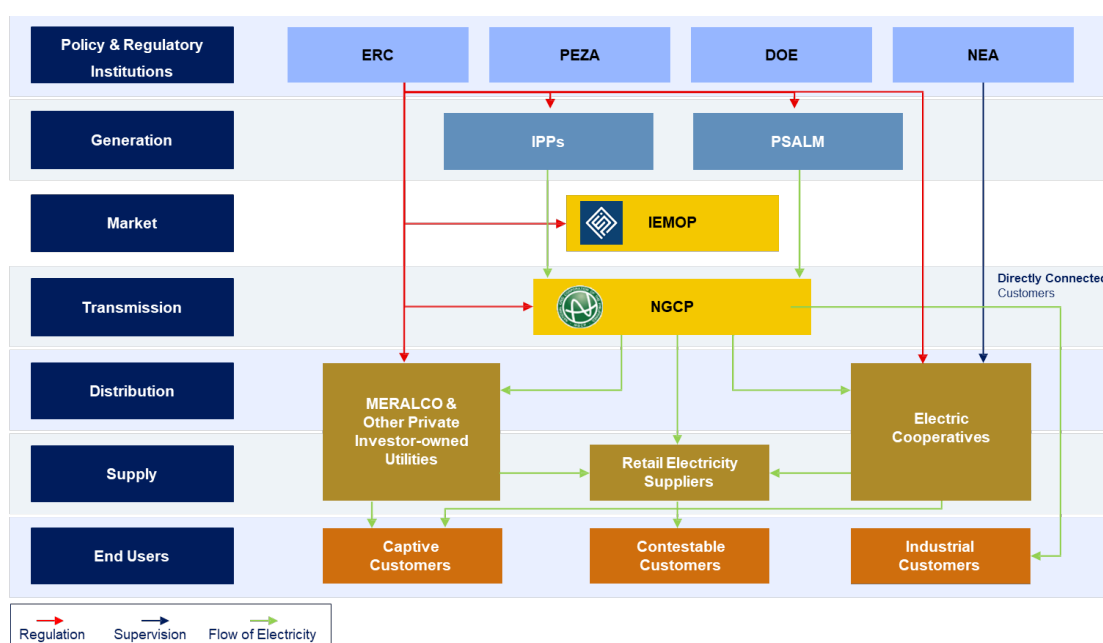
Republic Act No. 9136 or the EPIRA, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

## REGULATION RELATING TO THE ENERGY BUSINESS

### Organization and Operation of the Power Industry

Republic Act No. 9136 or the EPIRA established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.

Industry structure under the EPIRA:



Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;
- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;



- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the IRR of the EPIRA on February 27, 2002 (subsequently amended in 2007).

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

### **Reorganization of the Electric Power Industry**

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors will be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

#### ***The Generation Sector***

Under the EPIRA, power generation *per se* is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. “Open Access” is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while “Retail Competition” is defined as the provision of electricity to a contestable market (which, under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 KW) by persons licensed by the ERC to engage in the business of supplying electricity end-users through Open Access.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the “**Captive Market**”), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise

sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be contestable customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the “**ERC RES Rules**”). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules.

As of the date of this Prospectus, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30.0% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25.0% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50.0% of the distribution utility’s total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectivity of the said Act. References to total installed generating capacity of SMC Global Power Holdings Corp. based on ERC Resolution No. 05, Series of 2019 dated June 2019 have been adjusted to include 150 MW generating capacity from the commencement of commercial operations of Limay Greenfield Power Plant Unit 4 in July 2019.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC.

Based on latest available data from PSALM, PSALM has privatized 23 operating/generating power facilities and four decommissioned power facilities, with a total gross capacity of 4,601.43 MW. Moreover, additional seven power plants with total gross capacity of over 3,600 MW were privatized through IPPA contracts. Major generation assets sold include the 748 MW Tiwi-Makban geothermal power plant, the 600 MW Batangas (Calaca) coal-fired thermal power plant, the 600 MW Masinloc coal fired power plant, the 620 MW Limay combined cycle power plant, 360 MW Magat hydroelectric power plant, and the 305 MW Palinpinon-Tongonan geothermal power plant. Among the capacities privatized through IPPA Agreements include the 92.52 MW Mindanao I and II (Mt. Apo 1 and 2) geothermal power plants, 1,000 MW Sual coal-fired power plant, the 700 MW Pagbilao coal-fired power plant, the 345 MW of the San Roque Power Plant, the 70 MW Bakun hydroelectric power plant, the 200 MW Unified Leyte Geothermal Power Plant, and the 1,200 MW Ilijan combined-cycle gas-fired power plant. In 2018, PSALM also commenced the privatization of the 650 MW Malaya thermal power plant in Rizal and the 210 MW Mindanao coal-fired plant in Misamis Oriental.

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15.0% of their common shares of stock. Under prevailing regulations, any offer of common shares of stock for sale to the public through any of the following modes shall be deemed as public offering:

- listing in the PSE;
- a public offering undertaken in accordance with the Securities Regulation Code and its implementing rules and regulations; and
- listing in any accredited stock exchange or direct offer of a portion of registered enterprises’ capital stock to the public and/or their employees, when deemed feasible and desirable by the BOI.

### *The Transmission Sector*

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TransCo, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The principal function of TransCo is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code (“**Grid Code**”). TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the transmission grid is subject to transmission wheeling charges. As the transmission of electric power is a regulated common carrier business, TransCo’s transmission wheeling charges are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TransCo through an outright sale of, or the grant of, a concession over the transmission assets while the sub-transmission assets of TransCo are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TransCo assets with a bid of US\$3.95 billion. On January 15, 2009, NGCP was officially granted the authority to operate the sole transmission system of the country pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511.

The Grid Code establishes the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine Grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and provides for the responsibilities and obligations of three key independent functional groups, namely: (a) the grid owner, or TransCo; (b) the system operator, or NGCP as the current concessionaire of TransCo; and (c) the market operator, or the PEMC. These functional groups, as well as all users of the grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a grid management committee, which is tasked with the monitoring of the day-to-day operations of the grid;
- performance standards for the transmission of electricity through the grid, as well as the operation and maintenance thereof, which standards shall apply to TransCo, NGCP, distribution utilities and suppliers of electricity; and
- technical and financial standards and criteria applicable to users of the grid, including generation companies and distribution utilities connected or seeking to connect thereto; and other matters relating to the planning, management, operation and maintenance of the grid.

### *The Distribution Sector*

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local Government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a certificate of public convenience and necessity from the ERC to operate as public utilities. Based on the latest available data from the DOE, there are 26 private distribution utilities and 124 electric cooperatives in the Philippines.

They are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code (“**Distribution Code**”) (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. The retail rate imposed by distribution utilities for the supply of

electricity to its captive consumers is also subject to ERC approval. In addition, as a result of the policy of the Government in promoting free competition and Open Access, distribution utilities are now required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connection to a distribution system;
- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

### ***The Supply Sector***

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50.0% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with contestable customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand highlights in the Philippines for 2018 based on data from the DOE:

| <b>Grid</b>       | <b>Installed capacity (MW)</b> | <b>Dependable capacity (MW)</b> | <b>Available capacity (MW)</b> | <b>Peak demand (MW)</b> |
|-------------------|--------------------------------|---------------------------------|--------------------------------|-------------------------|
| Luzon.....        | 16,549                         | 14,973                          | 11,444                         | 10,876                  |
| Visayas .....     | 3,450                          | 3,000                           | 2,411                          | 2,053                   |
| Mindanao .....    | 3,815                          | 3,269                           | 2,373                          | 1,853                   |
| Philippines ..... | 23,815                         | 21,241                          | 16,601                         | 14,782                  |

### **Role of the ERC**

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities on their captive end-users, as well as the universal charge to be imposed on all electricity end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the contestable market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;
- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the contestable and Captive Markets;
- to fix user fees to be charged by TransCo/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the grid;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TransCo/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities except cases which involve abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant.

### **Role of the DOE**

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;

- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of a system of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

### **Role of the Joint Congressional Power Commission**

The Joint Congressional Power Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine senate and house of representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- determination of inherent weaknesses in the EPIRA and recommend necessary remedial legislation or executive measures.

### **Competitive Market Devices**

#### ***WESM***

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of June 2017, there were 260 wholesale membership participants and 946 retail membership entities registered at the WESM based on its 2017 Annual Report.

The PEMC and the Independent Electricity Market Operator of the Philippines Inc. (“**IEMOP**”) have executed an operating agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from the PEMC to the IEMOP effective September 26, 2018. With the signing of the operating agreement, the IEMOP is poised to take over the market operations of the WESM, a function that is currently performed by the PEMC. Republic Act No. 9136 requires the PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. The IEMOP is a non-stock, non-profit corporation led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, that was incorporated and organized to implement the plan. Beginning on September 26, 2018, the IEMOP has been running the electricity market and, among other things, managing the registration of market participants, receiving generation offers, announcing market prices, dispatching schedules of the generation plants and handling billing, settlement and collections. Under the policy and regulatory oversight of the DOE and the ERC, the PEMC has remained as the governing body for the WESM to monitor compliance by the market participants with the market rules.

### ***WESM in Mindanao***

In anticipation of the increase of supply condition in Mindanao, the DOE, through DOE Circular DC2017-05-0009, has declared the launch of the WESM. Similar to the operations in Luzon and Visayas, WESM’s primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program has started last June 26, 2017 where its objective is to familiarize all Mindanao participants in the implementation of the WESM. Commercial operations of WESM in Mindanao will commence upon compliance with certain criteria set out in DOE Circular DC2017-05-0009.

### ***RCOA***

The EPIRA likewise provides for a system of Open Access on transmission and distribution wires, whereby TransCo/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution wheeling charges. The full commercial operation of RCOA in Luzon and Visayas commenced on June 26, 2013 with a total of 275 registered participants. Conditions for the commencement of such Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70.0% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70.0% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the “Open Access Date” to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be contestable customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed contestable customers to stay with their current distribution utility until December 25, 2013, or until such time

that they were able to find a RES provided that it promptly informs the distribution utility of such fact. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated contestable customers to secure their RSCs by June 25, 2016, including contestable customers with an average demand of 750 KW to 999 KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the contestable markets (i.e., under prevailing regulations, electricity end-users with monthly average peak demand of at least 500 KW) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

As of the date of this Prospectus, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

### ***Unbundling of Rates and Removal of Cross Subsidies***

The EPIRA mandates that distribution wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one year if it determines that there will be a material adverse effect upon the public interest or an immediate, irreparable and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for the RCOA.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for marginalized or low-income captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users are exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

### ***Implementation of the Performance-Based Regulation (“PBR”)***

The ERC issued the Rules for Setting Distribution Wheeling Rates that apply to privately owned distribution utilities entering PBR, which set out the manner in which the new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR is intended to replace the return-on-rate-base regulation that has historically determined the distribution charges paid by the distribution companies’ customers. Under the PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period will be set by reference to projected revenues determined through a set regulatory asset base, the efficiency of the distribution utility and the latter’s capital, all of which are reviewed and approved by the ERC and used by the ERC to determine the efficiency factor of a distribution utility. For each year during the regulatory period, the distribution charge of a distribution utility is adjusted upwards or downwards taking into consideration the efficiency factor of the utility set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.



### ***Competitive Selection Process***

Under prevailing regulations, DUs and ECs are mandated to undertake a CSP in the procurement of PSAs to ensure the security and certainty of electricity prices of electric power in the long-term.

On February 1, 2018, the DOE issued the DOE CSP Policy, which sets forth the department's policy on the conduct of CSP in the procurement by DUs and ECs. Under the DOE CSP Policy, all PSAs are required to be procured through the CSP, except in the following instances: (i) generation project owned by the DU funded by grants or donations; (ii) negotiated procurement of emergency power supply with a cooperation period not exceeding one year; (iii) provision of power supply by any mandated government owned and controlled corporations for off-grid areas prior to, and until the entry of new power providers in the area; and (iv) provision of power supply by PSALM through bilateral contracts. In the event the CSP fails twice, and there is no outstanding dispute on the conducted CSP, the DU or EC may use direct negotiation for purposes of procuring the relevant PSA. While the DOE CSP Policy effectively revoked the authority of the ERC to issue supplemental guidelines and procedures relating to implement the CSP, the DOE directed the ERC to: (i) establish and impose existing fines and/or penalties for non-compliance with the DOE CSP Policy, (ii) review compliance with the requirements of CSP, (iii) develop a template PSA to be used with electric power industry participants, and (iv) develop rules and procedures to address disputes arising from the conduct of the CSP.

### ***Reduction of Taxes and Royalties on Indigenous Energy Resources***

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the IRR, then President Arroyo issued Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

### ***Framework for Energy Storage System in the Electric Power Industry***

DOE Department Circular No. DC2019-08-0012 dated August 1, 2019 sets forth the framework for energy storage systems in the electric power industry in the Philippines (the **"ESS Framework"**). An energy storage system (**"ESS"**) refers to a facility acting as a load and a generator, which is designed to receive, store and convert such energy to electricity. ESS technologies include BESS, compressed air energy storage, flywheel energy storage, pumped-storage hydropower, and other emerging technologies that may be identified, qualified and approved by the DOE as ESS.

Under the ESS Framework, the following electric power industry participants may own and operate ESS: (i) generation companies, either as a stand-alone generating facility or an integrated ESS in its existing generating facilities; (ii) directly connected customers, for the purpose of managing their energy demands; (iii) end-users, for the purpose of managing their energy demands; (iv) qualified third parties, in conjunction with renewable energy-based generating facilities or as part of hybrid power systems to provide continuous electric service to households in the form of either a micro-grid or a distributed energy resource. Transmission network provider, small grid owner, system operator and system operator-small grid are prohibited from owning and operating an ESS. Further, the Transmission network provider is required to consider BESS as an alternative solution in addressing transmission issues such as line congestion and to consider ESS applications to defer network upgrades. In addition, the system operator is directed to optimize the addition of BESS into its ancillary services pool and prioritize environmentally friendly sources of energy.

Under the ESS Framework, ESS proponents shall apply and register their ESS for one or more of the following purposes:

- provision of ancillary services;
- provision of energy through bilateral supply contract or trading in the WESM;
- manage the penetration of renewable energy;
- auxiliary load management for generation companies;
- transmission/distribution facility upgrades deferment;
- transmission congestion relief;
- end-user demand management;
- distribution utility demand management; and

- distribution utility power quality management.

An ESS that provides frequency regulation, as part of the ancillary services, must be at least 20MW for the Luzon Grid and at least 5MW for the Visayas and Mindanao Grids.

All ESS proponents are required to secure (i) a COC as a generation company from the ERC pursuant to existing guidelines on licensing of generation facilities; (ii) an environmental compliance certificate or any other equivalent document from the DENR; and (iii) other requirements by relevant government agencies pursuant to their existing guidelines. Distribution utilities that intend to enter into a PSA with ESS proponents for the supply of electricity to its captive customers shall observe (a) market share and bilateral contract limitations under Section 45 of the EPIRA; and (b) the DOE CSP Policy.

All ESS facilities shall comply with the rules and regulations on safety, health, environmental standards and proper disposal enforced by appropriate government agencies. In addition, ESS facilities connected to the transmission system as well as ESS connected to the distribution system with capacity equal to or above the following regional thresholds:

- 10MW for Luzon Grid;
- 5MW for Visayas Grid; and
- 5MW for Mindanao Grid

are mandated to register in the WESM and shall be classified under the generation company category, in accordance with the WESM rules and market manuals. All ESS integrated in generation facilities of generation companies are required have a separate registration in the WESM and shall comply with the requirements on separate metering and monitoring facilities, among others.

#### ***Government Approval Process***

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not required to secure a national franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a certificate of compliance from the ERC to operate facilities used in the generation of electricity. A certificate of compliance is valid for a period of five years from the date of issuance.

In addition to the certificate of compliance requirement, a generation company must comply with government-prescribed technical, financial capability, health, safety and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued guidelines setting the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service capability ratio (which measures the ability of the power generation company to service its debts) of 1.5x throughout the period covered by its certificate of compliance. For certificate of compliance applications and renewals, the guidelines require the submission to the ERC of, among other things, a schedule of liabilities, and a five-year financial plan. For the duration of the certificate of compliance, the guidelines also require a generation company to submit audited financial statements and forecast financial statements to the ERC for the next two financial years, as well as other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be grounds for the imposition of fines and penalties.

With the introduction of RCOA, the rates charged by a generation company are no longer regulated by the ERC, except rates for Captive Markets (as determined by the ERC). In addition, since the establishment of the WESM, generation companies are now required to comply with the membership criteria and appropriate dispatch scheduling as prescribed under the WESM Rules.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local Government authorities, relating to, among others, site acquisition, construction and operation, including environmental-related licenses and permits.

#### ***Ancillary Services***

Under the EPIRA, NGCP has the obligation to ensure and maintain the reliability, adequacy, security, stability and integrity of the grid in accordance with the performance standards for its operations and maintenance, as set forth in the Grid Code, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.

In the performance of its functions as the grid system operator, NGCP requires ancillary services to ensure the power quality and stability of the grid. Ancillary services, as defined in Section 4(b) of the EPIRA, are services necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with the good utility practice and the Grid Code. These are support services to provide frequency control and include Primary Reserve, Secondary Reserve, and Tertiary Reserve.

In order to maintain the security and integrity of the grid, the system operator shall operate the grid in such a manner as to provide adequate frequency control to achieve operations within frequency limits at all times. Achieving effective frequency control requires the following ancillary services which are differentiated depending on their response time and sustainability.

- Primary Reserve Ancillary Service (“**PRAS**”). This reserve shall cover sudden outage or failure of synchronized generating unit or transmission line links or the power import from a single circuit interconnection, whichever is larger. The capacity of the PRAS provider should not be used in the regular energy supply but can be set to respond on small variations to system frequency to support the Secondary Reserves.
- Secondary Reserve Ancillary Service (“**SRAS**”). The system operator thru AGC shall use the Secondary Reserve to restore the system frequency from the quasi-steady state value as established by the Primary Response and Reserve of generating units back to the nominal frequency of 60 Hz during contingent event. Small variations to system frequency to support the balance through Governor Control Mode (GCM) may be initiated. Where the AGC function of the system operator is not fully operational, dispatcher may instruct the generator to transfer to GCM as well. SRAS should be controlled by the system operator thru Automatic Generation Control (“**AGC**”) with various AGC modes and frequency deadband settings in order to regulate the system frequency and the speed governing system shall be capable of accepting raise and lower signals or set point signals from the Control Center of the system operator.
- Tertiary Reserve Ancillary Service (“**TRAS**”). The capacity of the qualified generating units offered for this Ancillary Service should not be part of the regular energy supply and can either be synchronized to respond within 15 minutes or off-line provided that it can fully provide the required reserve within 30 minutes from the receipt of dispatch instruction. The Tertiary Reserve provider should be able sustain its contributed capacity for at least 60 minutes. If and only if, the Primary and Secondary Reserves have been exhausted, the system operator shall make use of the Tertiary Reserve to return/maintain the system frequency to 60Hz in cases of: tripping of a generating unit or a transmission line which creates generation-load unbalance, unplanned loss of the power import, disconnection of a large load or load blocks, system frequency increases above 60.1 Hz or reduces below 59.9 Hz and it is not possible to return it to nominal values with appropriate use of the Primary and Secondary Reserves. TRAS should be capable of operating thru AGC or manual mode and shall be monitored and controlled by the system operator.

To implement and regulate the procurement of ancillary services, the ERC approved the Ancillary Services Procurement Plan (“**ASPP**”) and the Ancillary Services — Cost Recovery Mechanism (“**AS-CRM**”) on March 9, 2006 and October 3, 2007, respectively. Under the AS-CRM, NGCP secures Ancillary Services through the ASPA with qualified generation companies. For ancillary services arranged via the ASPA, the OATS Rules, the ASPP and the AS-CRM will be applied.

All ancillary services contracted by NGCP from qualified generators will be recovered through rates and charges from the generation customers, embedded generation customers and load customers, where applicable, subject to approval of the ERC.

ASPA's require the substantial completion of the project prior to contracting with the NGCP and are subject to ERC approval. These are generally for a term of five years, extendible for another five years with relatively standard rates, particularly for regulating reserves.

## **REGULATION RELATING TO THE INFRASTRUCTURE BUSINESS**

The Company has investments in companies which hold long term concessions on infrastructure projects awarded by the government. The rights and obligations of the Company, including regulatory requirements in connection with these projects are primarily governed by the respective concession agreements for each project.

### **Civil Aviation Authority Act of 2008**

The Civil Aviation Authority of the Philippines (“CAAP”) is an independent regulatory body attached to the DOTr. The CAAP regulates the air transportation system in the Philippines, which includes the power to provide prescribe and revise safety standards for the operation of air navigation facilities located in the Philippines. Pursuant to its functions, it issued on May 27, 2011 the Philippine Civil Aviation Regulations (Board Resolution No. 2011-025). The standards include General Policies and Air Operator Certification and Administration.

### **Toll Regulatory Board**

The TRB was created under P.D. No. 1112 for the regulation of toll facilities and operates as an attached agency of the DOTC. Pursuant to Executive Order No. 133 s. 2013, in relation to PD No. 1112, the TRB is authorized and empowered to enter into contracts or TOA in behalf of the ROP with qualified persons or entities, for the construction, operation and maintenance of toll facilities such as but not limited to national highways, roads, bridges, and public thoroughfares. The TOA is subject to the approval of the President of the Philippines and has a fixed term not exceeding 50 years.

The TRB is also the issuing authority of the Toll Operation Certificates (“TOC”). The TOC is the authority granted to qualified persons, to develop, improve, upgrade, expand, rehabilitate, reconstruct, modernize and/or construct/build and operate and maintain a toll facility. The TOC has a fixed term not exceeding 50 years and may be amended, modified or revoked by the TRB whenever the public interest so requires subject to the payment of just compensation, if any is due.

The privilege to operate toll facilities in the Philippines is limited by nationality restrictions. The Constitution provides that a franchise, certificate, or any other form of authorization for the operation of a public utility can only be granted to Filipino citizens or corporations or associations organized under Philippine laws at least 60.0% of whose capital is owned by Filipinos.

Among the operation and maintenance facilities of toll facilities which may form part of a TOC or a TOA, include (a) For operation: (i) toll collection system, (ii) traffic control system, (iii) tollroad patrol and vehicle control with communications system, (iv) facilities for assistance of disabled vehicles and in case of emergencies, (v) information service and message sign boards, (vi) vehicle regulation facilities, (vii) telephone and lighting facilities, and, (viii) emergency operations; and (b) For maintenance (i) patrolling and inspection facility, (ii) road cleaning and obstruction control, (iii) electricity and water supply, (iv) repavement facilities, steel bridge painting, bridge strengthening, interchange improvement, parking area improvement, slope protection, pavement painting and the like, (v) disaster prevention and reaction facilities, and (vi) environmental enhancement and protection.

Aside from the power to grant an administrative franchise, the TRB is also vested with the power to issue, modify and promulgate toll rates, and upon notice and hearing, to approve or disapprove petitions for the increase thereof. The procedures for approval of initial, adjusted or periodic toll rates as well as approval of provisional toll rates are governed by the 2013 Revised Rules of Procedure of the TRB.

## **ENVIRONMENTAL MATTERS**

The operations of the businesses of the Company are subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

### **Philippine Environmental Impact Statement System**

The Philippine Environmental Impact Statement System (the “EISS Law”) established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical

area. The DENR, through its regional offices or through the Environmental Management Bureau (“**EMB**”), determines whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement (“**EIS**”) which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan (“**EMP**”) in the EIS. The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund (“**EMF**”) when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent’s compliance with ECC conditions, EMP and applicable laws, rules and regulations.

Power plant operations are considered environmentally critical projects for which an EIS and an ECC are mandatory.

### **The Clean Water Act**

Republic Act No. 9275 or the Clean Water Act and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

### **The Clean Air Act**

Pursuant to Republic Act No. 8749 or the Clean Air Act of 1999 and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

### **Other Environmental Laws**

Other regulatory environmental laws and regulations applicable to the businesses of the Company include the following:

- Republic Act No. 6969 or the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990, which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines, or the keeping in storage of hazardous wastes which include by-products, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

- Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000, which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centres and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.
- Presidential Decree No. 856 or the Code on Sanitation of the Philippines (the “**Sanitation Code**”), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial establishments. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit.

## **APPENDIX**

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- A. Audited Consolidated Financial Statements as of and for the years ended December 31, 2020, 2019 and 2018
- B. List of properties owned and leased by SMC

**APPENDIX “A”**

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020, 2019 and 2018**



# **SAN MIGUEL CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020, 2019 and 2018**

With Independent Auditors' Report



**SAN MIGUEL CORPORATION**

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

The management of San Miguel Corporation (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.

**RAMON S. ANG**

Vice Chairman, President and  
Chief Operating Officer

**FERDINAND K. CONSTANTINO**

Senior Vice President and  
Chief Finance Officer/Treasurer

Signed this 11<sup>th</sup> day of March 2021

## ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES)  
Mandaluyong City ) S.S.

Before me, a Notary Public for and in Mandaluyong City, this 11th day of March 2021,  
personally appeared the following:

| <u>Name</u>              | <u>Passport No.</u> | <u>Date / Place of Issue</u> |
|--------------------------|---------------------|------------------------------|
| Ramon S. Ang             | P2247867B           | 05/22/2019/DFA-Manila        |
| Ferdinand K. Constantino | P0341304A           | 09/22/16/DFA-NCR East        |

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

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

Doc. No.: 457  
Page No.: 93  
Book No.: VI  
Series of 2021.



A handwritten signature in blue ink, appearing to be "PAULA KATHERINA A. GAN".

**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



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Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**San Miguel Corporation**  
No. 40 San Miguel Avenue  
Mandaluyong City

### *Opinion*

We have audited the consolidated financial statements of San Miguel Corporation 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 audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

## Key Audit Matters

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

### *Revenue recognition (P725,797 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 (P129,733 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 (P169,532 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

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**  
(In Millions)

|                                                                 | <i>Note</i>                  | <b>2020</b>       | 2019       |
|-----------------------------------------------------------------|------------------------------|-------------------|------------|
| <b>ASSETS</b>                                                   |                              |                   |            |
| <b>Current Assets</b>                                           |                              |                   |            |
| Cash and cash equivalents                                       | 4, 5, 7, 39, 40              | <b>P347,209</b>   | P286,457   |
| Trade and other receivables - net                               | 4, 5, 8, 33, 35, 39, 40      | <b>124,369</b>    | 136,488    |
| Inventories                                                     | 4, 5, 9                      | <b>102,822</b>    | 127,463    |
| Current portion of biological assets - net                      | 4, 16                        | <b>3,401</b>      | 4,151      |
| Prepaid expenses and other current assets                       | 4, 5, 10, 12, 33, 34, 39, 40 | <b>94,610</b>     | 86,585     |
| <b>Total Current Assets</b>                                     |                              | <b>672,411</b>    | 641,144    |
| <b>Noncurrent Assets</b>                                        |                              |                   |            |
| Investments and advances - net                                  | 4, 5, 11                     | <b>50,495</b>     | 52,861     |
| Investments in equity and debt instruments                      | 4, 12, 39, 40                | <b>41,766</b>     | 42,055     |
| Property, plant and equipment - net                             | 4, 5, 13, 34                 | <b>511,624</b>    | 463,614    |
| Right-of-use assets - net                                       | 4, 5, 14, 34                 | <b>169,208</b>    | 173,604    |
| Investment property - net                                       | 4, 15                        | <b>60,678</b>     | 51,779     |
| Biological assets - net of current portion                      | 4, 16                        | <b>2,352</b>      | 2,808      |
| Goodwill - net                                                  | 4, 5, 17, 38                 | <b>129,733</b>    | 130,073    |
| Other intangible assets - net                                   | 4, 5, 17                     | <b>169,532</b>    | 149,014    |
| Deferred tax assets                                             | 4, 5, 23                     | <b>20,946</b>     | 18,052     |
| Other noncurrent assets - net                                   | 4, 5, 18, 33, 34, 35, 39, 40 | <b>83,462</b>     | 92,730     |
| <b>Total Noncurrent Assets</b>                                  |                              | <b>1,239,796</b>  | 1,176,590  |
|                                                                 |                              | <b>P1,912,207</b> | P1,817,734 |
| <b>LIABILITIES AND EQUITY</b>                                   |                              |                   |            |
| <b>Current Liabilities</b>                                      |                              |                   |            |
| Loans payable                                                   | 5, 19, 30, 33, 38, 39, 40    | <b>P140,645</b>   | P169,492   |
| Accounts payable and accrued expenses                           | 4, 5, 20, 33, 34, 35, 39, 40 | <b>153,249</b>    | 176,037    |
| Lease liabilities - current portion                             | 4, 5, 30, 33, 34, 38, 39, 40 | <b>25,759</b>     | 24,979     |
| Income and other taxes payable                                  | 5                            | <b>20,998</b>     | 21,185     |
| Dividends payable                                               | 33, 36, 38                   | <b>4,231</b>      | 4,116      |
| Current maturities of long-term debt - net of debt issue costs  | 5, 21, 30, 33, 38, 39, 40    | <b>74,502</b>     | 43,808     |
| <b>Total Current Liabilities</b>                                |                              | <b>419,384</b>    | 439,617    |
| <b>Noncurrent Liabilities</b>                                   |                              |                   |            |
| Long-term debt - net of current maturities and debt issue costs | 5, 21, 30, 33, 38, 39, 40    | <b>692,407</b>    | 638,996    |
| Lease liabilities - net of current portion                      | 4, 5, 30, 33, 34, 38, 39, 40 | <b>91,278</b>     | 117,269    |
| Deferred tax liabilities                                        | 23                           | <b>27,749</b>     | 25,265     |
| Other noncurrent liabilities                                    | 4, 5, 22, 33, 34, 35, 39, 40 | <b>26,301</b>     | 22,192     |
| <b>Total Noncurrent Liabilities</b>                             |                              | <b>837,735</b>    | 803,722    |

Forward

|                                                                    | <b>Note</b> | <b>2020</b>       | <b>2019</b> |
|--------------------------------------------------------------------|-------------|-------------------|-------------|
| <b>Equity</b>                                                      | 24, 36, 37  |                   |             |
| <b>Equity Attributable to Equity Holders of the Parent Company</b> |             |                   |             |
| Capital stock - common                                             |             | <b>P16,443</b>    | P16,443     |
| Capital stock - preferred                                          |             | <b>10,187</b>     | 10,187      |
| Additional paid-in capital                                         |             | <b>177,719</b>    | 177,938     |
| Capital securities                                                 |             | <b>28,171</b>     | -           |
| Equity reserves                                                    | 5           | <b>10,131</b>     | 14,390      |
| Retained earnings:                                                 |             |                   |             |
| Appropriated                                                       |             | <b>60,155</b>     | 56,689      |
| Unappropriated                                                     |             | <b>162,204</b>    | 173,092     |
| Treasury stock                                                     |             | <b>(110,146)</b>  | (116,283)   |
|                                                                    |             | <b>354,864</b>    | 332,456     |
| <b>Non-controlling Interests</b>                                   | 2, 5        | <b>300,224</b>    | 241,939     |
| <b>Total Equity</b>                                                |             | <b>655,088</b>    | 574,395     |
|                                                                    |             | <b>P1,912,207</b> | P1,817,734  |

*See Notes to the Consolidated Financial Statements.*

**SAN MIGUEL CORPORATION 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>            | <b>2020</b>     | 2019       | 2018       |
|------------------------------------------------------------------------------------------------------------|------------------------|-----------------|------------|------------|
| <b>SALES</b>                                                                                               | 6, 25, 33              | <b>P725,797</b> | P1,020,502 | P1,024,943 |
| <b>COST OF SALES</b>                                                                                       | 26, 34                 | <b>576,449</b>  | 818,815    | 825,748    |
| <b>GROSS PROFIT</b>                                                                                        |                        | <b>149,348</b>  | 201,687    | 199,195    |
| <b>SELLING AND ADMINISTRATIVE EXPENSES</b>                                                                 | 27, 34                 | <b>(77,872)</b> | (85,972)   | (82,110)   |
| <b>INTEREST EXPENSE AND OTHER FINANCING CHARGES</b>                                                        | 19, 21, 30, 33, 34, 35 | <b>(52,035)</b> | (56,019)   | (45,496)   |
| <b>INTEREST INCOME</b>                                                                                     | 7, 31, 33, 35          | <b>6,182</b>    | 10,675     | 7,192      |
| <b>EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES</b>                                    | 11                     | <b>417</b>      | 105        | (289)      |
| <b>GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT</b>                                       | 5, 13, 15, 18          | <b>(491)</b>    | (237)      | 252        |
| <b>OTHER INCOME (CHARGES) - Net</b>                                                                        | 4, 5, 32, 39, 40       | <b>11,861</b>   | 6,848      | (5,628)    |
| <b>INCOME BEFORE INCOME TAX</b>                                                                            |                        | <b>37,410</b>   | 77,087     | 73,116     |
| <b>INCOME TAX EXPENSE</b>                                                                                  | 23, 42                 | <b>15,531</b>   | 28,513     | 24,468     |
| <b>NET INCOME</b>                                                                                          |                        | <b>P21,879</b>  | P48,574    | P48,648    |
| <b>Attributable to:</b>                                                                                    |                        |                 |            |            |
| Equity holders of the Parent Company                                                                       |                        | <b>P2,973</b>   | P21,329    | P23,077    |
| Non-controlling interests                                                                                  | 5                      | <b>18,906</b>   | 27,245     | 25,571     |
|                                                                                                            |                        | <b>P21,879</b>  | P48,574    | P48,648    |
| <b>Basic/Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company</b> | 37                     | <b>(P1.66)</b>  | P5.93      | P6.61      |

*See Notes to the Consolidated Financial Statements.*

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(In Millions)

|                                                                                      | <i>Note</i> | <b>2020</b>    | 2019    | 2018    |
|--------------------------------------------------------------------------------------|-------------|----------------|---------|---------|
| <b>NET INCOME</b>                                                                    |             | <b>P21,879</b> | P48,574 | P48,648 |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                             |             |                |         |         |
| <b>Items that will not be reclassified to profit or loss</b>                         |             |                |         |         |
| Equity reserve for retirement plan                                                   | 35          | <b>(357)</b>   | (3,382) | (540)   |
| Income tax benefit                                                                   |             | <b>126</b>     | 971     | 170     |
| Net gain (loss) on financial assets at fair value through other comprehensive income | 12          | <b>(172)</b>   | (44)    | 46      |
| Income tax expense                                                                   |             | <b>(1)</b>     | (6)     | (6)     |
| Share in other comprehensive income (loss) of associates and joint ventures - net    | 11          | <b>(132)</b>   | (25)    | 2       |
|                                                                                      |             | <b>(536)</b>   | (2,486) | (328)   |
| <b>Items that may be reclassified to profit or loss</b>                              |             |                |         |         |
| Gain (loss) on exchange differences on translation of foreign operations             |             | <b>(4,448)</b> | (3,128) | 1,459   |
| Net gain (loss) on financial assets at fair value through other comprehensive income | 12          | <b>1</b>       | 11      | (9)     |
| Income tax expense                                                                   |             | <b>-</b>       | (1)     | -       |
| Net loss on cash flow hedges                                                         | 40          | <b>(23)</b>    | (679)   | (280)   |
| Income tax benefit                                                                   |             | <b>5</b>       | 192     | 84      |
|                                                                                      |             | <b>(4,465)</b> | (3,605) | 1,254   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>                                |             | <b>(5,001)</b> | (6,091) | 926     |
| <b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>                                       |             | <b>P16,878</b> | P42,483 | P49,574 |
| <b>Attributable to:</b>                                                              |             |                |         |         |
| Equity holders of the Parent Company                                                 |             | <b>(P816)</b>  | P16,839 | P22,948 |
| Non-controlling interests                                                            | 5           | <b>17,694</b>  | 25,644  | 26,626  |
|                                                                                      |             | <b>P16,878</b> | P42,483 | P49,574 |

*See Notes to the Consolidated Financial Statements.*

**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(In Millions)

|                                                                                   |       | Equity Attributable to Equity Holders of the Parent Company |           |                            |                                     |                                 |                             |                 |                    |                     |                      |              |                |           |           |                           |              |          |
|-----------------------------------------------------------------------------------|-------|-------------------------------------------------------------|-----------|----------------------------|-------------------------------------|---------------------------------|-----------------------------|-----------------|--------------------|---------------------|----------------------|--------------|----------------|-----------|-----------|---------------------------|--------------|----------|
|                                                                                   |       | Capital Securities                                          |           |                            |                                     | Equity Reserves                 |                             |                 |                    |                     | Retained Earnings    |              | Treasury Stock |           |           | Non-Controlling Interests | Total Equity |          |
|                                                                                   | Note  | Capital Stock<br>Common                                     | Preferred | Additional Paid-in Capital | Senior Perpetual Capital Securities | Redeemable Perpetual Securities | Reserve for Retirement Plan | Hedging Reserve | Fair Value Reserve | Translation Reserve | Other Equity Reserve | Appropriated | Unappropriated | Common    | Preferred | Total                     |              |          |
| As at January 1, 2020                                                             |       | P16,443                                                     | P10,187   | P177,938                   | P -                                 | P -                             | (P4,850)                    | (P614)          | P548               | P982                | P18,324              | P56,689      | P173,092       | (P67,093) | (P49,190) | P332,456                  | P241,939     | P574,395 |
| Loss on exchange differences on translation of foreign operations                 |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | (3,211)             | -                    | -            | -              | -         | -         | (3,211)                   | (1,237)      | (4,448)  |
| Share in other comprehensive income (loss) of associates and joint ventures - net | 11    | -                                                           | -         | -                          | -                                   | -                               | (69)                        | -               | 7                  | (53)                | -                    | -            | -              | -         | -         | (115)                     | (17)         | (132)    |
| Net income (loss) on cash flow hedges                                             | 40    | -                                                           | -         | -                          | -                                   | -                               | -                           | (40)            | -                  | -                   | -                    | -            | -              | -         | -         | (40)                      | 22           | (18)     |
| Net loss on financial assets at fair value through other comprehensive income     | 12    | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | (171)              | -                   | -                    | -            | -              | -         | -         | (171)                     | (1)          | (172)    |
| Equity reserve for retirement plan                                                | 35    | -                                                           | -         | -                          | -                                   | -                               | (252)                       | -               | -                  | -                   | -                    | -            | -              | -         | -         | (252)                     | 21           | (231)    |
| Other comprehensive loss                                                          |       | -                                                           | -         | -                          | -                                   | -                               | (321)                       | (40)            | (164)              | (3,264)             | -                    | -            | -              | -         | -         | (3,789)                   | (1,212)      | (5,001)  |
| Net income                                                                        |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | 2,973          | -         | -         | 2,973                     | 18,906       | 21,879   |
| Total comprehensive income (loss)                                                 |       | -                                                           | -         | -                          | -                                   | -                               | (321)                       | (40)            | (164)              | (3,264)             | -                    | -            | 2,973          | -         | -         | (816)                     | 17,694       | 16,878   |
| Issuance of capital securities                                                    | 24    | -                                                           | -         | -                          | 24,211                              | 14,662                          | -                           | -               | -                  | -                   | -                    | -            | -              | -         | -         | 38,873                    | -            | 38,873   |
| Purchase and cancellation of redeemable perpetual securities                      | 24    | -                                                           | -         | -                          | -                                   | (10,702)                        | -                           | -               | -                  | -                   | -                    | -            | (108)          | -         | -         | (10,810)                  | -            | (10,810) |
| Reissuance of treasury shares                                                     | 24    | -                                                           | -         | (219)                      | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | -              | -         | 33,793    | 33,574                    | -            | 33,574   |
| Redemption of Series "1" and Series "2-D" preferred shares                        | 24    | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | -              | -         | (27,656)  | (27,656)                  | -            | (27,656) |
| Net addition (reduction) to non-controlling interests and others                  | 5, 11 | -                                                           | -         | -                          | -                                   | -                               | 69                          | -               | (1)                | 64                  | (602)                | (2,795)      | 2,135          | -         | -         | (1,130)                   | 62,586       | 61,456   |
| Appropriations - net                                                              | 24    | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | 6,261        | (6,261)        | -         | -         | -                         | -            | -        |
| Cash dividends and distributions:                                                 | 36    | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | -              | -         | -         | -                         | -            | -        |
| Common                                                                            |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | (3,337)        | -         | -         | (3,337)                   | (9,967)      | (13,304) |
| Preferred                                                                         |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | (6,052)        | -         | -         | (6,052)                   | (1,915)      | (7,967)  |
| Undated subordinated capital securities                                           |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | -              | -         | -         | -                         | (1,447)      | (1,447)  |
| Senior perpetual capital securities                                               |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | -              | -         | -         | -                         | (8,666)      | (8,666)  |
| Redeemable perpetual securities                                                   |       | -                                                           | -         | -                          | -                                   | -                               | -                           | -               | -                  | -                   | -                    | -            | (238)          | -         | -         | (238)                     | -            | (238)    |
| As at December 31, 2020                                                           | 24    | P16,443                                                     | P10,187   | P177,719                   | P24,211                             | P3,960                          | (P5,102)                    | (P654)          | P383               | (P2,218)            | P17,722              | P60,155      | P162,204       | (P67,093) | (P43,053) | P354,864                  | P300,224     | P655,088 |

Forward

|                                                                                      | Note  | Equity Attributable to Equity Holders of the Parent Company |           |                            |                             |                 |                    |                     |                      |                   |                |                |           |          | Non-controlling Interests | Total Equity |
|--------------------------------------------------------------------------------------|-------|-------------------------------------------------------------|-----------|----------------------------|-----------------------------|-----------------|--------------------|---------------------|----------------------|-------------------|----------------|----------------|-----------|----------|---------------------------|--------------|
|                                                                                      |       | Equity Reserves                                             |           |                            |                             |                 |                    |                     |                      |                   |                |                |           |          |                           |              |
|                                                                                      |       | Capital Stock                                               |           | Additional Paid-in Capital | Reserve for Retirement Plan | Hedging Reserve | Fair Value Reserve | Translation Reserve | Other Equity Reserve | Retained Earnings |                | Treasury Stock |           | Total    |                           |              |
|                                                                                      |       | Common                                                      | Preferred |                            |                             |                 |                    |                     |                      | Appropriated      | Unappropriated | Common         | Preferred |          |                           |              |
| As at January 1, 2019, As adjusted                                                   |       | P16,443                                                     | P10,187   | P177,938                   | (P2,990)                    | (P173)          | P514               | P3,239              | P20,923              | P72,820           | P146,757       | (P67,093)      | (P42,408) | P336,157 | P173,368                  | P509,525     |
| Loss on exchange differences on translation of foreign operations                    |       | -                                                           | -         | -                          | -                           | -               | -                  | (2,261)             | -                    | -                 | -              | -              | -         | (2,261)  | (867)                     | (3,128)      |
| Share in other comprehensive income (loss) of associates and joint ventures - net    | 11    | -                                                           | -         | -                          | (113)                       | -               | 77                 | 4                   | -                    | -                 | -              | -              | -         | (32)     | 7                         | (25)         |
| Net loss on cash flow hedges                                                         | 40    | -                                                           | -         | -                          | -                           | (441)           | -                  | -                   | -                    | -                 | -              | -              | -         | (441)    | (46)                      | (487)        |
| Net gain (loss) on financial assets at fair value through other comprehensive income | 12    | -                                                           | -         | -                          | -                           | -               | (43)               | -                   | -                    | -                 | -              | -              | -         | (43)     | 3                         | (40)         |
| Equity reserve for retirement plan                                                   | 35    | -                                                           | -         | -                          | (1,713)                     | -               | -                  | -                   | -                    | -                 | -              | -              | -         | (1,713)  | (698)                     | (2,411)      |
| Other comprehensive income (loss)                                                    |       | -                                                           | -         | -                          | (1,826)                     | (441)           | 34                 | (2,257)             | -                    | -                 | -              | -              | -         | (4,490)  | (1,601)                   | (6,091)      |
| Net income                                                                           |       | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | 21,329         | -              | -         | 21,329   | 27,245                    | 48,574       |
| Total comprehensive income (loss)                                                    |       | -                                                           | -         | -                          | (1,826)                     | (441)           | 34                 | (2,257)             | -                    | -                 | 21,329         | -              | -         | 16,839   | 25,644                    | 42,483       |
| Redemption of series "2-B" preferred shares                                          | 24    | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | -              | -              | (6,782)   | (6,782)  | -                         | (6,782)      |
| Net addition (reduction) to non-controlling interests and others                     | 5, 11 | -                                                           | -         | -                          | (34)                        | -               | -                  | -                   | (2,599)              | 196               | (797)          | -              | -         | (3,234)  | 63,127                    | 59,893       |
| Reversal of appropriations - net                                                     | 24    | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | (16,327)          | 16,327         | -              | -         | -        | -                         | -            |
| Cash dividends and distributions:                                                    | 36    |                                                             |           |                            |                             |                 |                    |                     |                      |                   |                |                |           |          |                           |              |
| Common                                                                               |       | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | (3,337)        | -              | -         | (3,337)  | (11,161)                  | (14,498)     |
| Preferred                                                                            |       | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | (7,187)        | -              | -         | (7,187)  | (2,426)                   | (9,613)      |
| Undated subordinated capital securities                                              |       | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | -              | -              | -         | -        | (3,183)                   | (3,183)      |
| Senior perpetual capital securities                                                  |       | -                                                           | -         | -                          | -                           | -               | -                  | -                   | -                    | -                 | -              | -              | -         | -        | (3,430)                   | (3,430)      |
| As at December 31, 2019                                                              | 24    | P16,443                                                     | P10,187   | P177,938                   | (P4,850)                    | (P614)          | P548               | P982                | P18,324              | P56,689           | P173,092       | (P67,093)      | (P49,190) | P332,456 | P241,939                  | P574,395     |

Forward

| Equity Attributable to Equity Holders of the Parent Company                          |       |                 |           |                                  |                                   |                    |                       |                        |                            |                   |                     |                |           |          |                                  |                 |
|--------------------------------------------------------------------------------------|-------|-----------------|-----------|----------------------------------|-----------------------------------|--------------------|-----------------------|------------------------|----------------------------|-------------------|---------------------|----------------|-----------|----------|----------------------------------|-----------------|
|                                                                                      | Note  | Equity Reserves |           |                                  |                                   |                    |                       |                        |                            |                   |                     |                |           |          |                                  |                 |
|                                                                                      |       | Capital Stock   |           | Additional<br>Paid-in<br>Capital | Reserve for<br>Retirement<br>Plan | Hedging<br>Reserve | Fair Value<br>Reserve | Translation<br>Reserve | Other<br>Equity<br>Reserve | Retained Earnings |                     | Treasury Stock |           | Total    | Non-<br>controlling<br>Interests | Total<br>Equity |
|                                                                                      |       | Common          | Preferred |                                  |                                   |                    |                       |                        |                            | Appro-<br>priated | Unappro-<br>priated | Common         | Preferred |          |                                  |                 |
| As at January 1, 2018, As adjusted                                                   |       | P16,435         | P10,187   | P177,750                         | (P2,664)                          | P -                | P533                  | P2,748                 | (P5,160)                   | P66,890           | P143,014            | (P67,093)      | (P42,408) | P300,232 | P170,836                         | P471,068        |
| Gain on exchange differences on translation of foreign operations                    |       | -               | -         | -                                | -                                 | -                  | -                     | 501                    | -                          | -                 | -                   | -              | -         | 501      | 958                              | 1,459           |
| Share in other comprehensive income (loss) of associates and joint ventures - net    | 11    | -               | -         | -                                | 9                                 | -                  | (53)                  | 22                     | -                          | -                 | -                   | -              | -         | (22)     | 24                               | 2               |
| Net loss on cash flow hedges                                                         | 40    | -               | -         | -                                | -                                 | (173)              | -                     | -                      | -                          | -                 | -                   | -              | -         | (173)    | (23)                             | (196)           |
| Net gain (loss) on financial assets at fair value through other comprehensive income | 12    | -               | -         | -                                | -                                 | -                  | 34                    | -                      | -                          | -                 | -                   | -              | -         | 34       | (3)                              | 31              |
| Equity reserve for retirement plan                                                   | 35    | -               | -         | -                                | (469)                             | -                  | -                     | -                      | -                          | -                 | -                   | -              | -         | (469)    | 99                               | (370)           |
| Other comprehensive income (loss)                                                    |       | -               | -         | -                                | (460)                             | (173)              | (19)                  | 523                    | -                          | -                 | -                   | -              | -         | (129)    | 1,055                            | 926             |
| Net income                                                                           |       | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | -                 | 23,077              | -              | -         | 23,077   | 25,571                           | 48,648          |
| Total comprehensive income (loss)                                                    |       | -               | -         | -                                | (460)                             | (173)              | (19)                  | 523                    | -                          | -                 | 23,077              | -              | -         | 22,948   | 26,626                           | 49,574          |
| Issuance of common shares                                                            | 24    | 8               | -         | 188                              | -                                 | -                  | -                     | -                      | -                          | -                 | -                   | -              | -         | 196      | -                                | 196             |
| Net addition (reduction) to non-controlling interests and others                     | 5, 11 | -               | -         | -                                | 134                               | -                  | -                     | (32)                   | 26,083                     | (1,308)           | 145                 | -              | -         | 25,022   | (4,592)                          | 20,430          |
| Appropriations - net                                                                 | 24    | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | 7,238             | (7,238)             | -              | -         | -        | -                                | -               |
| Cash dividends and distributions:                                                    | 36    |                 |           |                                  |                                   |                    |                       |                        |                            |                   |                     |                |           |          |                                  |                 |
| Common                                                                               |       | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | -                 | (3,336)             | -              | -         | (3,336)  | (10,118)                         | (13,454)        |
| Preferred                                                                            |       | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | -                 | (7,317)             | -              | -         | (7,317)  | (1,495)                          | (8,812)         |
| Undated subordinated capital securities                                              |       | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | -                 | -                   | -              | -         | -        | (6,177)                          | (6,177)         |
| Senior perpetual capital securities                                                  |       | -               | -         | -                                | -                                 | -                  | -                     | -                      | -                          | -                 | -                   | -              | -         | -        | (878)                            | (878)           |
| As at December 31, 2018                                                              | 24    | P16,443         | P10,187   | P177,938                         | (P2,990)                          | (P173)             | P514                  | P3,239                 | P20,923                    | P72,820           | P148,345            | (P67,093)      | (P42,408) | P337,745 | P174,202                         | P511,947        |

See Notes to the Consolidated Financial Statements.



**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
(In Millions)

|                                                                           | <i>Note</i>   | <b>2020</b>     | 2019      | 2018      |
|---------------------------------------------------------------------------|---------------|-----------------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                               |               |                 |           |           |
| Income before income tax                                                  |               | <b>P37,410</b>  | P77,087   | P73,116   |
| Adjustments for:                                                          |               |                 |           |           |
| Interest expense and other financing charges                              | 30            | <b>52,035</b>   | 56,019    | 45,496    |
| Depreciation, amortization and others - net                               | 28            | <b>27,723</b>   | 35,235    | 50,670    |
| Loss (gain) on sale of investments and property and equipment             | 5, 13, 15, 18 | <b>491</b>      | 237       | (252)     |
| Interest income                                                           | 31            | <b>(6,182)</b>  | (10,675)  | (7,192)   |
| Equity in net losses (earnings) of associates and joint ventures          | 11            | <b>(417)</b>    | (105)     | 289       |
| Operating income before working capital changes                           |               | <b>111,060</b>  | 157,798   | 162,127   |
| Changes in noncash current assets, certain current liabilities and others | 38            | <b>10,745</b>   | 15,098    | (41,077)  |
| Cash generated from operations                                            |               | <b>121,805</b>  | 172,896   | 121,050   |
| Interest and other financing charges paid                                 |               | <b>(54,909)</b> | (58,833)  | (38,299)  |
| Income taxes paid                                                         |               | <b>(16,042)</b> | (21,868)  | (22,979)  |
| Net cash flows provided by operating activities                           |               | <b>50,854</b>   | 92,195    | 59,772    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                               |               |                 |           |           |
| Additions to property, plant and equipment                                | 13            | <b>(63,837)</b> | (66,805)  | (47,323)  |
| Increase in other noncurrent assets and others                            |               | <b>(24,472)</b> | (54,338)  | (40,494)  |
| Additions to investments and advances and investment in debt instruments  | 11, 12        | <b>(4,031)</b>  | (2,169)   | (20,021)  |
| Interest received                                                         |               | <b>6,402</b>    | 10,549    | 6,537     |
| Dividends received                                                        | 11, 12        | <b>1,344</b>    | 1,886     | 1,906     |
| Cash and cash equivalents of a consolidated (deconsolidated) subsidiary   | 5             | <b>1,053</b>    | (626)     | -         |
| Proceeds from sale of investments and property and equipment              | 5, 13, 15, 18 | <b>912</b>      | 871       | 1,139     |
| Acquisitions of subsidiaries, net of cash and cash equivalents acquired   | 38            | <b>-</b>        | (1,408)   | (98,057)  |
| Net cash flows used in investing activities                               |               | <b>(82,629)</b> | (112,040) | (196,313) |
| <i>Forward</i>                                                            |               |                 |           |           |

|                                                                                       | <b>Note</b> | <b>2020</b>      | <b>2019</b> | <b>2018</b> |
|---------------------------------------------------------------------------------------|-------------|------------------|-------------|-------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                           |             |                  |             |             |
| Proceeds from:                                                                        |             |                  |             |             |
| Short-term borrowings                                                                 |             | <b>P813,187</b>  | P1,405,972  | P996,769    |
| Long-term borrowings                                                                  |             | <b>160,437</b>   | 158,746     | 242,405     |
| Payments of:                                                                          |             |                  |             |             |
| Short-term borrowings                                                                 |             | <b>(841,775)</b> | (1,416,504) | (964,464)   |
| Long-term borrowings                                                                  |             | <b>(58,913)</b>  | (85,968)    | (65,591)    |
| Net proceeds from issuance of capital securities and preferred shares of subsidiaries | 5           | <b>67,799</b>    | 85,733      | 24,881      |
| Proceeds from reissuance of treasury shares                                           | 24          | <b>33,588</b>    | -           | -           |
| Net proceeds from issuance of capital securities                                      | 24          | <b>28,171</b>    | -           | -           |
| Redemption of preferred shares                                                        | 24          | <b>(27,656)</b>  | (6,782)     | -           |
| Payments of lease liabilities                                                         |             | <b>(24,825)</b>  | (20,673)    | (25,698)    |
| Cash dividends and distributions paid to non-controlling shareholders                 |             | <b>(21,777)</b>  | (20,065)    | (19,104)    |
| Redemption of capital securities and preferred shares of subsidiaries                 | 5           | <b>(15,000)</b>  | (22,305)    | (39,769)    |
| Cash dividends and distributions paid                                                 | 36          | <b>(9,731)</b>   | (10,587)    | (10,602)    |
| Decrease in non-controlling interests and others                                      |             | <b>(1,526)</b>   | (811)       | (91)        |
| Proceeds from follow-on offering of common shares of a subsidiary                     |             | -                | -           | 35,083      |
| Proceeds from issuance of capital stock                                               | 24          | -                | -           | 196         |
| Net cash flows provided by financing activities                                       |             | <b>101,979</b>   | 66,756      | 174,015     |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                   |             |                  |             |             |
|                                                                                       |             | <b>(9,452)</b>   | (3,604)     | (397)       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                      |             | <b>60,752</b>    | 43,307      | 37,077      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                 | 7           | <b>286,457</b>   | 243,150     | 206,073     |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                       | 7           | <b>P347,209</b>  | P286,457    | P243,150    |

See Notes to the Consolidated Financial Statements.

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**SAN MIGUEL CORPORATION AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Millions, Except Per Share Data and Number of Shares)

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**1. Reporting Entity**

San Miguel Corporation (SMC or the Parent Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company), was incorporated on August 21, 1913. On March 16, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term for another fifty (50) years from August 21, 2013, as approved on the March 14, 2011 and June 7, 2011 meetings of the Parent Company's Board of Directors (BOD) and stockholders, respectively.

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 Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed on The Philippine Stock Exchange, Inc. (PSE).

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, fuel and oil, infrastructure, cement and real estate property management and development.

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

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**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 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:

| Items                                                                     | Measurement Basis                                                                                 |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| 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:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Percentage of Ownership</b> |             | Country of Incorporation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|--------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>2020</b>                    | <b>2019</b> |                          |
| <b>Food and Beverage Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                |             |                          |
| 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.] | <b>88.76</b>                   | 88.76       | Philippines              |
| 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 <sup>(a)</sup> and PT. Delta Jakarta Tbk and subsidiary <sup>(a)}</sup> ]                                                                                                                                                  |                                |             |                          |
| 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]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                |             |                          |

*Forward*

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Percentage of Ownership |        | Country of Incorporation     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------|------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 2020                    | 2019   |                              |
| <b>Packaging Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                         |        |                              |
| 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 <sup>(a)</sup> , 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) <sup>(b)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | -                       | 65.00  | Philippines                  |
| <b>Energy Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                         |        |                              |
| 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) <sup>(c)</sup> | 100.00                  | 100.00 | Philippines                  |
| <b>Fuel and Oil Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                         |        |                              |
| SEA Refinery Corporation (SRC) and subsidiary:<br>Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Overseas Ventures Insurance Corporation Ltd. (Ovincor) <sup>(a)</sup> , New Ventures Realty Corporation (NVRC) and subsidiaries, Petrogen Insurance Corporation (Petrogen) <sup>(d)</sup> , 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 <sup>(a)</sup> and subsidiaries]                                                         | 100.00                  | 100.00 | Philippines                  |

Forward

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Percentage of Ownership |        | Country of Incorporation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|--------|--------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 2020                    | 2019   |                          |
| <b>Infrastructure Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                         |        |                          |
| San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC) and subsidiaries <sup>(a)</sup> [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. (AAIBV) 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              |
| <b>Cement Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                         |        |                          |
| San Miguel Equity Investments Inc. (SMEII) and subsidiaries <sup>(a)</sup> , including Northern Cement Corporation (NCC) <sup>(a)</sup> , San Miguel Northern Cement, Inc. (SMNCI) and First Stronghold Cement Industries Inc. (FSCII)]                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 100.00                  | 100.00 | Philippines              |
| <b>Real Estate Business</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                         |        |                          |
| San Miguel Properties, Inc. (SMPI) and subsidiaries <sup>(a)</sup> [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              |
| <b>Others</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                         |        |                          |
| 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 <sup>(a)</sup> , including SL Harbor Bulk Terminal Corporation (SLHBTC)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 70.00                   | 70.00  | Philippines              |
| SMC Stock Transfer Service Corporation <sup>(a)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 100.00                  | 100.00 | Philippines              |
| ArchEn Technologies Inc. <sup>(a)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 100.00                  | 100.00 | Philippines              |
| SMITS, Inc. and subsidiaries <sup>(a)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 100.00                  | 100.00 | Philippines              |
| San Miguel Integrated Logistics Services, Inc. (SMILSI) and subsidiary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 100.00                  | 100.00 | Philippines              |
| Anchor Insurance Brokerage Corporation (AIBC) <sup>(a)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 58.33                   | 58.33  | Philippines              |
| SMC Asia Car Distributors Corp. (SMCACDC) and subsidiaries <sup>(a)</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 65.00                   | 65.00  | Philippines              |

(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 the Parent Company (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 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).

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.

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### 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:

|                        | Amortization Period                          |
|------------------------|----------------------------------------------|
| Hogs - sow             | 3 years or 6 births,<br>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:

|                                      | Number of Years                               |
|--------------------------------------|-----------------------------------------------|
| 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 properties                      | 55                                            |
| Leasehold improvements               | 2 - 50                                        |
|                                      | or term of the lease,<br>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<br>or term of the lease,<br>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,<br>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.

### Capital Securities

Redeemable Perpetual Securities (RPS) and Senior Perpetual Capital Securities (SPCS) 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 financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of RPS and SPCS 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 distributions to holders of RPS and SPCS, 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.

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#### **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 P5,244 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 P117,037 and P142,248 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 P4,522 and P4,212 as at December 31, 2020 and 2019, respectively. The carrying amount of trade receivables amounted to P71,134 and P83,821 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:

|                                                                                                                                                                         | <b>Note</b>    | <b>2020</b>     | <b>2019</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------|-------------|
| <b>Other Financial Assets at Amortized Cost</b>                                                                                                                         |                |                 |             |
| Cash and cash equivalents (excluding cash on hand)                                                                                                                      | 7, 39          | <b>P345,425</b> | P283,507    |
| Other current receivables - net (included under "Trade and other receivables - net" account)                                                                            | 8              | <b>53,235</b>   | 52,667      |
| 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 | <b>255</b>      | 257         |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)                                                                      | 18, 39, 40     | <b>28,095</b>   | 28,775      |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)                                               | 10, 18, 39, 40 | <b>7,890</b>    | 12,423      |

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 P1,624 and P1,939 as at December 31, 2020 and 2019, respectively (Note 9).

The carrying amount of inventories amounted to P102,822 and P127,463 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 P525,035 and P476,693 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P219,246 and P197,599 as at December 31, 2020 and 2019, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P169,285 and P173,714 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P14,228 and P7,567 as at December 31, 2020 and 2019, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P60,686 and P51,787 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of investment property amounted to P16,838 and P15,498 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 P166,907 and P146,189 as at December 31, 2020 and 2019, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P43,643 and P38,902 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 P158,919 and P142,185 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 P129,733 and P130,073 as at December 31, 2020 and 2019, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,806 and P2,915 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.

*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 P715 and P711 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 P20,946 and P18,052 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 P14,411 and P13,968 as 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 P982,815 and P912,880 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 P31,617 and P33,265 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 NCC's mining operations. 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 a discount rate that reflects current market assessments and the risks specific to the liability. Discount rate used by the Group as at December 31, 2020 was 7.04%. 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 P46 as at December 31, 2020 (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).

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## **5. Investments in Subsidiaries**

The following are the developments relating to the Parent Company’s investments:

### 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:

| <b>Date of Issuance</b> | <b>Initial Rate of Distribution Per Annum</b> | <b>Issue Price</b> | <b>Amount in US Dollar</b> | <b>Amount in Philippine Peso</b> |
|-------------------------|-----------------------------------------------|--------------------|----------------------------|----------------------------------|
| 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                           |
|                         |                                               |                    | <b>US\$2,650</b>           | <b>P132,200</b>                  |

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 SMC before and after the transaction and the control was not transitory.

#### Infrastructure

- SMHC

On September 24, 2019, SMHC and the Parent Company, 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. The Parent Company 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, the Parent Company 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, the Parent Company 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:

|                                               | <i>Note</i> | 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                      |             | (2,847)       |
| Equity reserves                               |             | (630)         |
| <b>Total</b>                                  |             | <b>P1,873</b> |

## Packaging

- Merger of SMYAC with SMYPC

On September 12, 2019, the BOD of the Parent Company approved the following: (i) purchase by the Parent Company 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, the Parent Company 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. The Parent Company paid P300. As a result of the acquisition, the Parent Company 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, the Parent Company and SMYPC executed a subscription agreement whereby the Parent Company 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 SMC before and after the transaction and the control was not transitory.

## Real Estate

- SMPI

On December 23, 2019, SMPI and the Parent Company 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 the Parent Company 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, the Parent Company paid P4,092.

- DHDC

On January 8, 2019, the Parent Company 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 the Parent Company 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:

|                                                    | <b>Note</b> | <b>2020</b>    |
|----------------------------------------------------|-------------|----------------|
| <b>Assets</b>                                      |             |                |
| Cash and cash equivalents                          |             | <b>P1,053</b>  |
| Trade and other receivables - net                  |             | <b>82</b>      |
| Inventories                                        |             | <b>1,526</b>   |
| Prepaid expenses and other current assets          |             | <b>253</b>     |
| Property, plant and equipment - net                | 13          | <b>10,009</b>  |
| Right-of-use assets - net                          | 14          | <b>35</b>      |
| Other intangible assets - net                      | 17          | <b>4,626</b>   |
| Deferred tax assets                                | 23          | <b>260</b>     |
| Other noncurrent assets - net                      |             | <b>258</b>     |
| <b>Liabilities</b>                                 |             |                |
| Accounts payable and accrued expenses              |             | <b>(1,162)</b> |
| Income and other taxes payable                     |             | <b>(158)</b>   |
| Lease liabilities (including current portion)      | 38          | <b>(40)</b>    |
| Other noncurrent liabilities                       |             | <b>(182)</b>   |
| <b>Total Identifiable Net Assets at Fair Value</b> |             | <b>P16,560</b> |

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:

|                                                  | <b>Note</b> | <b>2020</b>     |
|--------------------------------------------------|-------------|-----------------|
| Equity interest held before business combination | 12          | <b>P4,902</b>   |
| Gain on fair valuation of investment             | 32          | <b>894</b>      |
| Non-controlling interest                         |             | <b>10,001</b>   |
| Total identifiable net assets at fair value      |             | <b>(16,560)</b> |
| <b>Gain</b>                                      | 32          | <b>(P763)</b>   |

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 3, 2021, NCC has yet to file the proposed merger with the SEC.

- SMEII

- a) Additional Subscriptions

On various dates in 2020, SMEII and the Parent Company 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, the Parent Company 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. The Parent Company initially paid P227 in 2018 while the remaining balance amounting to P148 was paid in 2019.

On various dates in 2019, SMILSI and the Parent Company 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 the Parent Company 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, the Parent Company 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 the Parent Company 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, the Parent Company 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 material non-controlling interests are as follows:

|                                                                           | December 31, 2020 |                | December 31, 2019 |         |
|---------------------------------------------------------------------------|-------------------|----------------|-------------------|---------|
|                                                                           | Petron            | SMFB           | Petron            | SMFB    |
| <b>Percentage of non-controlling interests</b>                            | <b>31.74%</b>     | <b>11.24%</b>  | 31.74%            | 11.24%  |
| <b>Carrying amount of non-controlling interests</b>                       | <b>P60,435</b>    | <b>P55,315</b> | P66,220           | P68,938 |
| <b>Net income (loss) attributable to non-controlling interests</b>        | <b>(P1,440)</b>   | <b>P11,248</b> | P3,372            | P16,685 |
| <b>Other comprehensive loss attributable to non-controlling interests</b> | <b>(P685)</b>     | <b>(P580)</b>  | (P1,092)          | (P315)  |
| <b>Dividends paid to non-controlling interests</b>                        | <b>P3,623</b>     | <b>P9,286</b>  | P3,750            | P10,067 |

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

|                                                              | December 31, 2020 |                 | December 31, 2019 |          |
|--------------------------------------------------------------|-------------------|-----------------|-------------------|----------|
|                                                              | Petron            | SMFB            | Petron            | SMFB     |
| Current assets                                               | <b>P132,294</b>   | <b>P103,040</b> | P179,488          | P106,119 |
| Noncurrent assets                                            | <b>217,431</b>    | <b>173,242</b>  | 215,347           | 159,848  |
| Current liabilities                                          | <b>(149,069)</b>  | <b>(84,309)</b> | (158,374)         | (73,072) |
| Noncurrent liabilities                                       | <b>(114,461)</b>  | <b>(60,154)</b> | (144,031)         | (49,714) |
| <b>Net Assets</b>                                            | <b>P86,195</b>    | <b>P131,819</b> | P92,430           | P143,181 |
| Sales                                                        | <b>P286,033</b>   | <b>P279,290</b> | P514,362          | P310,785 |
| Net income (loss)                                            | <b>(P11,413)</b>  | <b>P22,401</b>  | P2,303            | P32,279  |
| Other comprehensive loss                                     | <b>(1,689)</b>    | <b>(998)</b>    | (3,048)           | (538)    |
| <b>Total Comprehensive Income (Loss)</b>                     | <b>(P13,102)</b>  | <b>P21,403</b>  | (P745)            | P31,741  |
| Cash flows provided by operating activities                  | <b>P2,533</b>     | <b>P42,553</b>  | P25,362           | P43,172  |
| Cash flows used in investing activities                      | <b>(8,437)</b>    | <b>(25,198)</b> | (20,467)          | (28,450) |
| Cash flows provided by (used in) financing activities        | <b>318</b>        | <b>(16,184)</b> | 13,116            | (17,326) |
| Effect of exchange rate changes on cash and cash equivalents | <b>(1,579)</b>    | <b>(609)</b>    | (1,198)           | (370)    |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>(P7,165)</b>   | <b>P562</b>     | P16,813           | (P2,974) |



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## 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, and infrastructure.

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.

#### 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 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       |
| <b>Sales</b>                                                     |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           |              |            |            |
| External sales                                                   | P279,122          | P310,482 | P286,205 | P22,832   | P25,327 | P24,674 | P111,798 | P131,580 | P116,933 | P281,667     | P508,700 | P551,285 | P14,564        | P23,399  | P24,530  | P15,814                        | P21,014  | P21,316  | P -          | P -        | P -       | P725,797     | P1,020,502 | P1,024,943 |
| Inter-segment sales                                              | 168               | 303      | 173      | 8,672     | 12,547  | 12,651  | 3,231    | 3,480    | 3,170    | 4,366        | 5,662    | 6,101    | 1              | 7        | -        | 21,985                         | 19,873   | 17,252   | (38,423)     | (41,872)   | (39,347)  | -            | -          | -          |
| 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  | P37,799                        | P40,887  | P38,568  | (P38,423)    | (P41,872)  | (P39,347) | P725,797     | P1,020,502 | P1,024,943 |
| <b>Result</b>                                                    |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           |              |            |            |
| Segment result                                                   | P33,412           | P47,781  | P45,950  | P961      | P3,598  | P3,311  | P36,923  | P35,954  | P33,174  | (P4,674)     | P16,101  | P22,434  | P2,571         | P11,444  | P11,828  | P2,166                         | P991     | P2,078   | P117         | (P154)     | (P1,690)  | P71,476      | P115,715   | P117,085   |
| Interest expense and other financing charges                     |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | (52,035)     | (56,019)   | (45,496)   |
| Interest income                                                  |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 6,182        | 10,675     | 7,192      |
| Equity in net earnings (losses) of associates and joint ventures |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 417          | 105        | (289)      |
| Gain (loss) on sale of investments and property and equipment    |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | (491)        | (237)      | 252        |
| Other income (charges) - net                                     |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 11,861       | 6,848      | (5,628)    |
| Income tax expense                                               |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | (15,531)     | (28,513)   | (24,468)   |
| <b>Net Income</b>                                                |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | P21,879      | P48,574    | P48,648    |
| Attributable to:                                                 |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           |              |            |            |
| Equity holders of the Parent Company                             |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | P2,973       | P21,329    | P23,077    |
| Non-controlling interests                                        |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 18,906       | 27,245     | 25,571     |
| <b>Net Income</b>                                                |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | P21,879      | P48,574    | P48,648    |
| <b>Other Information</b>                                         |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           |              |            |            |
| Segment assets                                                   | P230,208          | P224,862 | P197,133 | P68,053   | P58,436 | P51,122 | P528,587 | P475,143 | P410,755 | P339,241     | P385,838 | P348,996 | P239,407       | P230,375 | P213,096 | P383,871                       | P308,290 | P308,442 | (P121,035)   | (P109,714) | (P97,177) | P1,668,332   | P1,573,230 | P1,432,367 |
| 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      | 36,064                         | 37,822   | 37,336   | -            | -          | -         | 50,495       | 52,861     | 50,519     |
| Goodwill and trademarks and brand names                          |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 130,434      | 130,777    | 131,560    |
| Other assets                                                     |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 42,000       | 42,814     | 42,947     |
| Deferred tax assets                                              |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | 20,946       | 18,052     | 19,249     |
| <b>Consolidated Total Assets</b>                                 |                   |          |          |           |         |         |          |          |          |              |          |          |                |          |          |                                |          |          |              |            |           | P1,912,207   | P1,817,734 | P1,676,642 |

Forward

|                                                                                                | Food and Beverage |         |         | Packaging      |         |         | Energy         |         |         | Fuel and Oil   |         |         | Infrastructure |         |         | Cement, Real Estate 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       |
| Segment liabilities                                                                            | <b>P55,255</b>    | P50,773 | P44,373 | <b>P10,213</b> | P10,343 | P11,207 | <b>P35,245</b> | P28,129 | P23,700 | <b>P42,110</b> | P71,831 | P57,989 | <b>P45,696</b> | P45,193 | P47,349 | <b>P80,571</b>                 | P81,903 | P72,473 | <b>(P92,569)</b> | (P93,459) | (P86,435) | <b>P176,521</b>   | P194,713   | P170,656   |
| Loans payable                                                                                  |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>140,645</b>    | 169,492    | 184,024    |
| Long-term debt                                                                                 |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>766,909</b>    | 682,804    | 617,615    |
| Lease liabilities                                                                              |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>117,037</b>    | 142,248    | 142,066    |
| Income and other taxes payable                                                                 |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>20,998</b>     | 21,185     | 19,901     |
| Dividends payable and others                                                                   |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>7,260</b>      | 7,632      | 7,534      |
| Deferred tax liabilities                                                                       |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>27,749</b>     | 25,265     | 22,899     |
| <b>Consolidated Total Liabilities</b>                                                          |                   |         |         |                |         |         |                |         |         |                |         |         |                |         |         |                                |         |         |                  |           |           | <b>P1,257,119</b> | P1,243,339 | P1,164,695 |
| Capital expenditures (Note 13)                                                                 | <b>P13,888</b>    | P18,163 | P13,999 | <b>P3,149</b>  | P5,207  | P6,303  | <b>P26,771</b> | P10,108 | P6,056  | <b>P8,167</b>  | P19,769 | P10,416 | <b>P452</b>    | P598    | P601    | <b>P11,410</b>                 | P12,960 | P9,948  | <b>P -</b>       | P -       | P -       | <b>P63,837</b>    | P66,805    | P47,323    |
| Depreciation and amortization of property, plant and equipment                                 | <b>4,392</b>      | 3,621   | 3,037   | <b>2,164</b>   | 1,960   | 1,816   | <b>5,215</b>   | 4,587   | 9,189   | <b>6,525</b>   | 10,328  | 9,893   | <b>377</b>     | 371     | 265     | <b>3,027</b>                   | 2,794   | 2,373   | <b>-</b>         | -         | -         | <b>21,700</b>     | 23,661     | 26,573     |
| Noncash items other than depreciation and amortization of property, plant and equipment        | <b>6,270</b>      | 5,387   | 6,662   | <b>347</b>     | 691     | (806)   | <b>2,403</b>   | 2,224   | 6,011   | <b>(889)</b>   | 180     | 4,279   | <b>5,349</b>   | 5,219   | 4,706   | <b>(7,291)</b>                 | (3,700) | 2,740   | <b>-</b>         | -         | -         | <b>6,189</b>      | 10,001     | 23,592     |
| Loss on (reversal of) impairment of property, plant and equipment, and other noncurrent assets | <b>1</b>          | 1,015   | 655     | <b>(99)</b>    | 241     | 37      | <b>(68)</b>    | 35      | 70      | <b>-</b>       | 282     | -       | <b>-</b>       | -       | -       | <b>-</b>                       | -       | (257)   | <b>-</b>         | -         | -         | <b>(166)</b>      | 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 and Others |         |         | Consolidated    |            |            |
|--------------------------------------|-------------------|----------|----------|----------------|---------|---------|-----------------|----------|----------|-----------------|----------|----------|----------------|---------|---------|--------------------------------|---------|---------|-----------------|------------|------------|
|                                      | 2020              | 2019     | 2018     | 2020           | 2019    | 2018    | 2020            | 2019     | 2018     | 2020            | 2019     | 2018     | 2020           | 2019    | 2018    | 2020                           | 2019    | 2018    | 2020            | 2019       | 2018       |
| <b>Timing of Revenue Recognition</b> |                   |          |          |                |         |         |                 |          |          |                 |          |          |                |         |         |                                |         |         |                 |            |            |
| Sales recognized at point in time    | <b>P279,110</b>   | P310,410 | P286,094 | <b>P21,897</b> | P24,570 | P23,972 | <b>P -</b>      | P -      | P -      | <b>P281,667</b> | P508,700 | P551,285 | <b>P -</b>     | P -     | P -     | <b>P13,361</b>                 | P16,659 | P16,720 | <b>P596,035</b> | P860,339   | P878,071   |
| Sales recognized over time           | <b>12</b>         | 72       | 111      | <b>935</b>     | 757     | 702     | <b>111,798</b>  | 131,580  | 116,933  | <b>-</b>        | -        | -        | <b>14,564</b>  | 23,399  | 24,530  | <b>2,453</b>                   | 4,355   | 4,596   | <b>129,762</b>  | 160,163    | 146,872    |
| <b>Total External Sales</b>          | <b>P279,122</b>   | P310,482 | P286,205 | <b>P22,832</b> | P25,327 | P24,674 | <b>P111,798</b> | P131,580 | P116,933 | <b>P281,667</b> | P508,700 | P551,285 | <b>P14,564</b> | P23,399 | P24,530 | <b>P15,814</b>                 | P21,014 | P21,316 | <b>P725,797</b> | P1,020,502 | P1,024,943 |

## 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

|                           | <b>Note</b>      | <b>2020</b>     | <b>2019</b> |
|---------------------------|------------------|-----------------|-------------|
| Cash in banks and on hand |                  | <b>P102,378</b> | P72,880     |
| Short-term investments    |                  | <b>244,831</b>  | 213,577     |
|                           | <b>4, 39, 40</b> | <b>P347,209</b> | P286,457    |

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:

|                                      | <b>Note</b>      | <b>2020</b>     | <b>2019</b> |
|--------------------------------------|------------------|-----------------|-------------|
| Trade                                |                  | <b>P74,662</b>  | P86,794     |
| Non-trade                            |                  | <b>48,971</b>   | 47,205      |
| Amounts owed by related parties      | <b>33, 35</b>    | <b>14,477</b>   | 15,177      |
|                                      |                  | <b>138,110</b>  | 149,176     |
| Less allowance for impairment losses | <b>4, 5</b>      | <b>13,741</b>   | 12,688      |
|                                      | <b>4, 39, 40</b> | <b>P124,369</b> | P136,488    |

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:

|                                    | <b>Note</b>   | <b>2020</b>    | <b>2019</b> |
|------------------------------------|---------------|----------------|-------------|
| Balance at beginning of year       |               | <b>P12,688</b> | P13,196     |
| Charges for the year               | <b>27, 32</b> | <b>1,196</b>   | 323         |
| Consolidation of subsidiaries      | <b>5</b>      | <b>5</b>       | 3           |
| Amounts written off                | <b>4</b>      | <b>(151)</b>   | (577)       |
| Translation adjustments and others |               | <b>3</b>       | (257)       |
| Balance at end of year             |               | <b>P13,741</b> | P12,688     |

## 9. Inventories

Inventories consist of:

|                                                                       | <b>Note</b> | <b>2020</b>     | <b>2019</b> |
|-----------------------------------------------------------------------|-------------|-----------------|-------------|
| At net realizable value:                                              |             |                 |             |
| Finished goods and goods in process<br>(including petroleum products) |             | <b>P57,957</b>  | P85,158     |
| Materials and supplies (including coal)                               |             | <b>41,059</b>   | 38,040      |
| At cost:                                                              |             |                 |             |
| Raw land inventory and real estate<br>projects                        |             | <b>3,806</b>    | 4,265       |
|                                                                       | <b>4</b>    | <b>P102,822</b> | P127,463    |

The cost of finished goods and goods in process amounted to P58,433 and P86,162 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 P42,207 and P38,975 as at December 31, 2020 and 2019, respectively.

Inventories (including distribution or transshipment costs) charged to cost of goods sold amounted to P367,125, P565,273 and P592,560 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:

|                               | <b>Note</b> | <b>2020</b>   | <b>2019</b> |
|-------------------------------|-------------|---------------|-------------|
| Balance at beginning of year  |             | <b>P1,939</b> | P2,168      |
| Provisions (reversals)        |             | <b>(165)</b>  | 48          |
| Consolidation of a subsidiary | <b>5</b>    | <b>136</b>    | -           |
| Write-off and others          |             | <b>(286)</b>  | (277)       |
| Balance at end of year        |             | <b>P1,624</b> | P1,939      |

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:

|                                                      | <b>Note</b>   | <b>2020</b>    | <b>2019</b> |
|------------------------------------------------------|---------------|----------------|-------------|
| Prepaid taxes and licenses                           |               | <b>P81,925</b> | P72,386     |
| Restricted cash - current                            | 4, 39, 40     | <b>3,111</b>   | 6,256       |
| PSALM monthly fee outage credits                     |               | <b>1,681</b>   | 886         |
| Prepaid insurance                                    |               | <b>1,182</b>   | 786         |
| Advances to contractors and suppliers                | 33            | <b>1,020</b>   | 1,782       |
| Derivative assets                                    | 39, 40        | <b>596</b>     | 917         |
| Financial assets at FVPL                             | 39, 40        | <b>275</b>     | 284         |
| Prepaid rent                                         |               | <b>270</b>     | 315         |
| Catalyst                                             |               | <b>241</b>     | 304         |
| Financial assets at amortized cost - current portion | 4, 12, 39, 40 | <b>105</b>     | 71          |
| Financial assets at FVOCI - current portion          | 4, 12, 39, 40 | <b>80</b>      | 38          |
| Others                                               | 34            | <b>4,124</b>   | 2,560       |
|                                                      |               | <b>P94,610</b> | P86,585     |

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, SMPC 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> | <b>2020</b>    | <b>2019</b> |
|------------------------------------------------------------------------------------|-------------|----------------|-------------|
| <b>Investments in Shares of Stock of Associates and Joint Ventures - at Equity</b> |             |                |             |
| <b>Acquisition Cost</b>                                                            |             |                |             |
| Balance at beginning of year                                                       |             | <b>P23,930</b> | P22,319     |
| Additions                                                                          |             | -              | 1,266       |
| Reclassification from investment in shares of stock of subsidiaries                | 5           | -              | 1,310       |
| Reclassification to investment in shares of stock of subsidiaries                  | 5           | <b>(3,500)</b> | (965)       |
| Balance at end of year                                                             |             | <b>20,430</b>  | 23,930      |
| <b>Accumulated Equity in Net Earnings</b>                                          |             |                |             |
| Balance at beginning of year                                                       |             | <b>1,953</b>   | 563         |
| Reclassification from investment in shares of stock of subsidiaries                | 5           | -              | 1,300       |
| Equity in net earnings                                                             |             | <b>417</b>     | 105         |
| Reclassification to investment in shares of stock of subsidiaries                  | 5           | <b>(1,402)</b> | 10          |
| Share in other comprehensive loss                                                  |             | <b>(132)</b>   | (25)        |
| Balance at end of year                                                             |             | <b>836</b>     | 1,953       |
|                                                                                    |             | <b>21,266</b>  | 25,883      |
| <b>Advances for Investments</b>                                                    |             | <b>29,229</b>  | 26,978      |
|                                                                                    | 4           | <b>P50,495</b> | P52,861     |



#### Investments in Shares of Stock of Associates

a. NCC

As discussed in Note 5, NCC became a wholly-owned subsidiary of SMEI 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   |
| <b>Country of incorporation</b>                                                           | Philippines          | Philippines | Philippines | Philippines |        |         |  | Philippines          | Philippines | Philippines | Philippines |        |         |
| <b>Percentage of ownership</b>                                                            | 60.00%               | -           | 44.62%      | 50.00%      |        |         |  | 60.00%               | 35.00%      | 44.62%      | 50.00%      |        |         |
| <b>Share in net income (loss)</b>                                                         | (P480)               | P127        | P314        | P428        | P28    | P417    |  | (P410)               | P171        | P304        | P212        | (P172) | P105    |
| <b>Share in other comprehensive income (loss)</b>                                         | -                    | -           | (57)        | (11)        | (64)   | (132)   |  | -                    | (13)        | (28)        | -           | 16     | (25)    |
| <b>Share in total comprehensive income (loss)</b>                                         | (P480)               | P127        | P257        | P417        | (P36)  | P285    |  | (P410)               | P158        | P276        | P212        | (P156) | P80     |
| <b>Dividends received</b>                                                                 | P -                  | P -         | P -         | P -         | P -    | P -     |  | P -                  | P -         | P -         | P -         | P -    | P -     |
| <b>Carrying amount of investments in shares of stock of associates and joint ventures</b> | P5,154               | P -         | P10,930     | P4,290      | P892   | P21,266 |  | P5,634               | P4,775      | P10,673     | P3,873      | P928   | P25,883 |

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  |
| <b>Current assets</b>                    | P2,225               | P94,964   | P1,599  | P5,490  |  | P2,627               | P2,427  | P68,430   | P1,373  | P5,629  |
| <b>Noncurrent assets</b>                 | 16,989               | 75,957    | 10,427  | 2,742   |  | 17,558               | 8,949   | 76,603    | 11,080  | 2,897   |
| <b>Current liabilities</b>               | (1,319)              | (146,840) | (2,951) | (4,493) |  | (1,279)              | (1,274) | (126,284) | (4,177) | (4,936) |
| <b>Noncurrent liabilities</b>            | (11,474)             | (7,314)   | (2,747) | (585)   |  | (11,685)             | (1,016) | (2,654)   | (2,714) | (614)   |
| <b>Net assets</b>                        | P6,421               | P16,767   | P6,328  | P3,154  |  | P7,221               | P9,086  | P16,095   | P5,562  | P2,976  |
| <b>Sales</b>                             | P1,341               | P6,280    | P3,831  | P4,177  |  | P1,588               | P8,165  | P6,532    | P4,195  | P4,348  |
| <b>Net income (loss)</b>                 | (P800)               | P784      | P759    | P20     |  | (P683)               | P679    | P653      | P751    | P108    |
| <b>Other comprehensive income (loss)</b> | -                    | (113)     | 7       | (20)    |  | -                    | (36)    | (65)      | (37)    | (21)    |
| <b>Total comprehensive income (loss)</b> | (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>      | <b>2020</b>    | 2019    |
|------------------------------------------|------------------|----------------|---------|
| Equity securities                        |                  | <b>P41,148</b> | P41,305 |
| Proprietary membership shares and others |                  | <b>422</b>     | 439     |
| Government and other debt securities     |                  | <b>381</b>     | 420     |
|                                          | <i>4, 39, 40</i> | <b>41,951</b>  | 42,164  |
| Less current portion                     | <i>10</i>        | <b>185</b>     | 109     |
|                                          |                  | <b>P41,766</b> | P42,055 |

### Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P35,781 and P35,954 as at December 31, 2020 and 2019, respectively.

### 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>          | <b>2020</b>    | 2019    |
|---------------------------------------------|----------------------|----------------|---------|
| Balance at beginning of year                |                      | <b>P42,164</b> | P42,220 |
| Additions                                   |                      | <b>70</b>      | 71      |
| Disposals                                   |                      | <b>(108)</b>   | (94)    |
| Fair value loss                             |                      | <b>(172)</b>   | (33)    |
| Amortization of premium                     |                      | <b>(1)</b>     | -       |
| Currency translation adjustments and others |                      | <b>(2)</b>     | -       |
| Balance at end of year                      | <i>4, 10, 39, 40</i> | <b>P41,951</b> | P42,164 |

The investments in equity and debt instruments are classified as follows:

|                                    | <b>2020</b>    | 2019    |
|------------------------------------|----------------|---------|
| <b>Noncurrent</b>                  |                |         |
| Financial assets at FVOCI          | <b>P41,616</b> | P41,869 |
| Financial assets at amortized cost | <b>150</b>     | 186     |
|                                    | <b>41,766</b>  | 42,055  |
| <b>Current</b>                     |                |         |
| Financial assets at FVOCI          | <b>80</b>      | 38      |
| Financial assets at amortized cost | <b>105</b>     | 71      |
|                                    | <b>185</b>     | 109     |
|                                    | <b>P41,951</b> | P42,164 |

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<br>and Land<br>Improvements | Buildings and<br>Improvements | Power<br>Plants | Refinery<br>and Plant<br>Equipment | Service Stations<br>and Other<br>Equipment | Equipment,<br>Furniture and<br>Fixtures | Leasehold<br>Improvements | Capital Projects<br>in Progress | Total           |
|--------------------------------------------------|-------|----------------------------------|-------------------------------|-----------------|------------------------------------|--------------------------------------------|-----------------------------------------|---------------------------|---------------------------------|-----------------|
| <b>Cost</b>                                      |       |                                  |                               |                 |                                    |                                            |                                         |                           |                                 |                 |
| January 1, 2019                                  |       | P29,098                          | P42,912                       | P136,566        | P168,157                           | P17,792                                    | P151,554                                | P5,501                    | P85,290                         | P636,870        |
| Additions                                        |       | 2,424                            | 1,523                         | 234             | 6,000                              | 1,769                                      | 6,265                                   | 207                       | 48,383                          | 66,805          |
| Acquisition of subsidiaries                      | 38    | 1,456                            | 270                           | -               | -                                  | -                                          | 716                                     | 5                         | 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                                        | 15,388                                  | 1,310                     | (38,800)                        | (21,700)        |
| Currency translation adjustments                 |       | (368)                            | (611)                         | (1,798)         | (153)                              | (246)                                      | (1,407)                                 | (15)                      | (1,197)                         | (5,795)         |
| December 31, 2019                                |       | 36,710                           | 51,108                        | 123,507         | 174,189                            | 19,283                                     | 169,083                                 | 6,973                     | 93,439                          | 674,292         |
| Additions                                        |       | 1,272                            | 342                           | 953             | 446                                | 560                                        | 3,717                                   | 66                        | 56,481                          | 63,837          |
| Consolidation of a subsidiary                    | 5     | 2,581                            | 2,042                         | -               | -                                  | -                                          | 11,425                                  | -                         | 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                                        | 12,671                                  | 566                       | (49,460)                        | 974             |
| Currency translation adjustments                 |       | (143)                            | (261)                         | (2,671)         | (430)                              | (315)                                      | (750)                                   | 10                        | (1,557)                         | (6,117)         |
| <b>December 31, 2020</b>                         |       | <b>41,964</b>                    | <b>61,683</b>                 | <b>146,692</b>  | <b>175,957</b>                     | <b>19,786</b>                              | <b>190,957</b>                          | <b>7,587</b>              | <b>99,655</b>                   | <b>744,281</b>  |
| <b>Accumulated Depreciation and Amortization</b> |       |                                  |                               |                 |                                    |                                            |                                         |                           |                                 |                 |
| January 1, 2019                                  |       | 2,760                            | 16,114                        | 24,727          | 51,446                             | 12,539                                     | 90,592                                  | 1,420                     | -                               | 199,598         |
| Depreciation and amortization                    | 6, 28 | 249                              | 1,395                         | 5,487           | 6,523                              | 1,098                                      | 8,583                                   | 326                       | -                               | 23,661          |
| Acquisition of subsidiaries                      | 38    | 116                              | 164                           | -               | -                                  | -                                          | 284                                     | 3                         | -                               | 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                                |       | 3,036                            | 17,521                        | 11,682          | 57,721                             | 12,878                                     | 93,125                                  | 1,636                     | -                               | 197,599         |
| Depreciation and amortization                    | 6, 28 | 380                              | 1,571                         | 5,713           | 3,128                              | 1,028                                      | 9,484                                   | 396                       | -                               | 21,700          |
| Consolidation of a subsidiary                    | 5     | 88                               | 511                           | -               | -                                  | -                                          | 5,900                                   | -                         | -                               | 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)         |
| <b>December 31, 2020</b>                         |       | <b>3,477</b>                     | <b>19,393</b>                 | <b>16,292</b>   | <b>60,607</b>                      | <b>13,689</b>                              | <b>103,819</b>                          | <b>1,969</b>              | <b>-</b>                        | <b>219,246</b>  |
| <b>Accumulated Impairment Losses</b>             |       |                                  |                               |                 |                                    |                                            |                                         |                           |                                 |                 |
| January 1, 2019                                  |       | -                                | 3,139                         | -               | -                                  | -                                          | 9,739                                   | 27                        | -                               | 12,905          |
| Impairment                                       | 32    | -                                | 194                           | -               | -                                  | -                                          | 682                                     | -                         | -                               | 876             |
| Disposals/retirement                             |       | -                                | -                             | -               | -                                  | -                                          | (35)                                    | -                         | -                               | (35)            |
| Reclassifications                                |       | -                                | (73)                          | -               | -                                  | -                                          | -                                       | -                         | -                               | (73)            |
| Currency translation adjustments                 |       | -                                | (158)                         | -               | -                                  | -                                          | (434)                                   | (2)                       | -                               | (594)           |
| December 31, 2019                                |       | -                                | 3,102                         | -               | -                                  | -                                          | 9,952                                   | 25                        | -                               | 13,079          |
| 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)             |
| <b>December 31, 2020</b>                         |       | <b>-</b>                         | <b>3,129</b>                  | <b>-</b>        | <b>-</b>                           | <b>-</b>                                   | <b>10,255</b>                           | <b>27</b>                 | <b>-</b>                        | <b>13,411</b>   |
| <b>Carrying Amount</b>                           |       |                                  |                               |                 |                                    |                                            |                                         |                           |                                 |                 |
| December 31, 2019                                |       | P33,674                          | P30,485                       | P111,825        | P116,468                           | P6,405                                     | P66,006                                 | P5,312                    | P93,439                         | P463,614        |
| <b>December 31, 2020</b>                         |       | <b>P38,487</b>                   | <b>P39,161</b>                | <b>P130,400</b> | <b>P115,350</b>                    | <b>P6,097</b>                              | <b>P76,883</b>                          | <b>P5,591</b>             | <b>P99,655</b>                  | <b>P511,624</b> |

“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 P21,735, P24,537 and P27,190 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 P64,018 and P55,986 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:

|                                                  | Note | Land           | Buildings and Improvements | Power Plants    | Service Stations and Other Equipment | Machinery and Equipment | Total           |
|--------------------------------------------------|------|----------------|----------------------------|-----------------|--------------------------------------|-------------------------|-----------------|
| <b>Cost</b>                                      |      |                |                            |                 |                                      |                         |                 |
| January 1, 2019                                  |      | P13,365        | P1,063                     | P167,387        | P24                                  | P504                    | P182,343        |
| Additions                                        |      | 15             | 151                        | -               | -                                    | 111                     | 277             |
| Acquisition of 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                      | 167,387         | 24                                   | 615                     | 181,281         |
| 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              |
| <b>December 31, 2020</b>                         |      | <b>14,410</b>  | <b>1,016</b>               | <b>167,387</b>  | <b>24</b>                            | <b>676</b>              | <b>183,513</b>  |
| <b>Accumulated Depreciation and Amortization</b> |      |                |                            |                 |                                      |                         |                 |
| January 1, 2019                                  |      | 1,284          | -                          | -               | -                                    | -                       | 1,284           |
| Depreciation and amortization                    | 28   | 598            | 682                        | 5,186           | 3                                    | 220                     | 6,689           |
| Disposals                                        |      | (2)            | -                          | -               | -                                    | -                       | (2)             |
| Remeasurement and others                         |      | (428)          | 20                         | -               | -                                    | -                       | (408)           |
| Currency translation adjustments                 |      | 11             | (7)                        | -               | -                                    | -                       | 4               |
| December 31, 2019                                |      | 1,463          | 695                        | 5,186           | 3                                    | 220                     | 7,567           |
| Depreciation and amortization                    | 28   | 866            | 419                        | 5,187           | 3                                    | 219                     | 6,694           |
| 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              |
| <b>December 31, 2020</b>                         |      | <b>2,813</b>   | <b>634</b>                 | <b>10,373</b>   | <b>6</b>                             | <b>402</b>              | <b>14,228</b>   |
| <b>Accumulated Impairment Losses</b>             |      |                |                            |                 |                                      |                         |                 |
| 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)             |
| <b>December 31, 2020</b>                         |      | <b>77</b>      | <b>-</b>                   | <b>-</b>        | <b>-</b>                             | <b>-</b>                | <b>77</b>       |
| <b>Carrying Amount</b>                           |      |                |                            |                 |                                      |                         |                 |
| December 31, 2019                                |      | P10,596        | P391                       | P162,201        | P21                                  | P395                    | P173,604        |
| <b>December 31, 2020</b>                         |      | <b>P11,520</b> | <b>P382</b>                | <b>P157,014</b> | <b>P18</b>                           | <b>P274</b>             | <b>P169,208</b> |

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 P7,465 and P8,734 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 P32,335 in 2020 and 2019, respectively.



## 15. Investment Property

The movements in investment property are as follows:

|                                                  | Note | Land, Land and<br>Leasehold<br>Improvements | Buildings and<br>Improvements | Machinery and<br>Equipment | Construction<br>in Progress | Right-of-Use<br>Asset | Total          |
|--------------------------------------------------|------|---------------------------------------------|-------------------------------|----------------------------|-----------------------------|-----------------------|----------------|
| <b>Cost</b>                                      |      |                                             |                               |                            |                             |                       |                |
| January 1, 2019                                  |      | P25,271                                     | P16,837                       | P437                       | P288                        | P11,456               | P54,289        |
| 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                                |      | 35,370                                      | 18,846                        | 438                        | 389                         | 12,242                | 67,285         |
| 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)          |
| <b>December 31, 2020</b>                         |      | <b>46,923</b>                               | <b>19,492</b>                 | <b>438</b>                 | <b>442</b>                  | <b>10,229</b>         | <b>77,524</b>  |
| <b>Accumulated Depreciation and Amortization</b> |      |                                             |                               |                            |                             |                       |                |
| January 1, 2019                                  |      | 1,149                                       | 9,423                         | 424                        | -                           | 288                   | 11,284         |
| Depreciation and amortization                    | 28   | 322                                         | 656                           | 2                          | -                           | 958                   | 1,938          |
| Reclassifications                                |      | 2,760                                       | (126)                         | -                          | -                           | -                     | 2,634          |
| Disposals/retirement                             |      | (23)                                        | (47)                          | (1)                        | -                           | -                     | (71)           |
| Currency translation adjustments                 |      | (71)                                        | (209)                         | -                          | -                           | (7)                   | (287)          |
| December 31, 2019                                |      | 4,137                                       | 9,697                         | 425                        | -                           | 1,239                 | 15,498         |
| Depreciation and amortization                    | 28   | 320                                         | 740                           | 2                          | -                           | 994                   | 2,056          |
| Reclassifications                                |      | (7)                                         | 3                             | -                          | -                           | 30                    | 26             |
| Disposals/retirement                             |      | -                                           | (31)                          | -                          | -                           | (110)                 | (141)          |
| Currency translation adjustments                 |      | (221)                                       | (369)                         | -                          | -                           | (11)                  | (601)          |
| <b>December 31, 2020</b>                         |      | <b>4,229</b>                                | <b>10,040</b>                 | <b>427</b>                 | <b>-</b>                    | <b>2,142</b>          | <b>16,838</b>  |
| <b>Accumulated Impairment Losses</b>             |      |                                             |                               |                            |                             |                       |                |
| <b>December 31, 2019 and 2020</b>                |      | <b>8</b>                                    | <b>-</b>                      | <b>-</b>                   | <b>-</b>                    | <b>-</b>              | <b>8</b>       |
| <b>Carrying Amount</b>                           |      |                                             |                               |                            |                             |                       |                |
| December 31, 2019                                |      | P31,225                                     | P9,149                        | P13                        | P389                        | P11,003               | P51,779        |
| <b>December 31, 2020</b>                         |      | <b>P42,686</b>                              | <b>P9,452</b>                 | <b>P11</b>                 | <b>P442</b>                 | <b>P8,087</b>         | <b>P60,678</b> |

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> | <b>2020</b>   | 2019   |
|-----------------------|-------------|---------------|--------|
| Current:              |             |               |        |
| Growing stocks        |             | <b>P2,591</b> | P3,448 |
| Goods in process      |             | <b>810</b>    | 703    |
|                       |             | <b>3,401</b>  | 4,151  |
| Noncurrent:           |             |               |        |
| Breeding stocks - net |             | <b>2,352</b>  | 2,808  |
|                       | <b>4</b>    | <b>P5,753</b> | 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> | <b>2020</b>     | 2019     |
|---------------------------------|-------------|-----------------|----------|
| <b>Cost</b>                     |             |                 |          |
| Balance at beginning of year    |             | <b>P8,511</b>   | P8,636   |
| Increase (decrease) due to:     |             |                 |          |
| Production                      |             | <b>47,131</b>   | 50,954   |
| Purchases                       |             | <b>349</b>      | 471      |
| Mortality                       |             | <b>(1,396)</b>  | (827)    |
| Harvest                         |             | <b>(43,622)</b> | (47,344) |
| Retirement                      |             | <b>(4,635)</b>  | (3,379)  |
| Balance at end of year          |             | <b>6,338</b>    | 8,511    |
| <b>Accumulated Amortization</b> |             |                 |          |
| Balance at beginning of year    |             | <b>1,552</b>    | 1,547    |
| Amortization                    | <b>28</b>   | <b>3,565</b>    | 3,152    |
| Retirement                      |             | <b>(4,532)</b>  | (3,147)  |
| Balance at end of year          |             | <b>585</b>      | 1,552    |
| <b>Carrying Amount</b>          |             | <b>P5,753</b>   | 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                | <b>P129,733</b> | P130,073 |
| Other intangible assets | <b>169,532</b>  | 149,014  |
|                         | <b>P299,265</b> | P279,087 |

The movements in goodwill are as follows:

|                                    | Note  | 2020            | 2019     |
|------------------------------------|-------|-----------------|----------|
| Balance at beginning of year       |       | <b>P130,073</b> | P130,852 |
| Additions                          | 4, 38 | -               | 53       |
| Deconsolidation of a subsidiary    | 5     | -               | (325)    |
| Cumulative translation adjustments |       | <b>(340)</b>    | (507)    |
| Balance at end of year             | 4     | <b>P129,733</b> | P130,073 |

The movements in other intangible assets with indefinite useful lives are as follows:

|                                      | Licenses      | Trademarks<br>and Brand<br>Names | Total         |
|--------------------------------------|---------------|----------------------------------|---------------|
| <b>Cost</b>                          |               |                                  |               |
| January 1, 2019                      | P2,135        | P962                             | P3,097        |
| Currency translation adjustments     | 76            | (13)                             | 63            |
| December 31, 2019                    | 2,211         | 949                              | 3,160         |
| Currency translation adjustments     | (106)         | (15)                             | (121)         |
| <b>December 31, 2020</b>             | <b>2,105</b>  | <b>934</b>                       | <b>3,039</b>  |
| <b>Accumulated Impairment Losses</b> |               |                                  |               |
| January 1, 2019                      | -             | 254                              | 254           |
| Currency translation adjustments     | -             | (9)                              | (9)           |
| December 31, 2019                    | -             | 245                              | 245           |
| Currency translation adjustments     | -             | (12)                             | (12)          |
| <b>December 31, 2020</b>             | <b>-</b>      | <b>233</b>                       | <b>233</b>    |
| <b>Carrying Amount</b>               |               |                                  |               |
| December 31, 2019                    | P2,211        | P704                             | P2,915        |
| <b>December 31, 2020</b>             | <b>P2,105</b> | <b>P701</b>                      | <b>P2,806</b> |

The movements in other intangible assets with finite useful lives are as follows:

|                                  |       | Concession Rights |               |               |            |               | Leasehold<br>and Land<br>Use Rights | Mineral<br>Rights and<br>Evaluation<br>Assets | Computer<br>Software<br>and<br>Licenses<br>and Others | Total           |
|----------------------------------|-------|-------------------|---------------|---------------|------------|---------------|-------------------------------------|-----------------------------------------------|-------------------------------------------------------|-----------------|
|                                  | Note  | Toll Road         | Airport       | Power         | Port       | Water         |                                     |                                               |                                                       |                 |
| <b>Cost</b>                      |       |                   |               |               |            |               |                                     |                                               |                                                       |                 |
| January 1, 2019                  |       | P144,049          | P7,036        | P1,034        | P13,838    | P6,519        | P732                                | P1,734                                        | P4,439                                                | P179,381        |
| 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                |       | 160,872           | 9,020         | 1,240         | -          | 6,887         | -                                   | 1,759                                         | 5,313                                                 | 185,091         |
| 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)             |
| <b>December 31, 2020</b>         |       | <b>180,224</b>    | <b>10,980</b> | <b>1,434</b>  | <b>-</b>   | <b>6,894</b>  | <b>-</b>                            | <b>6,384</b>                                  | <b>4,634</b>                                          | <b>210,550</b>  |
| <b>Accumulated Amortization</b>  |       |                   |               |               |            |               |                                     |                                               |                                                       |                 |
| January 1, 2019                  |       | 30,372            | 697           | 133           | 2,460      | -             | 175                                 | -                                             | 2,833                                                 | 36,670          |
| Amortization                     | 28    | 3,986             | 342           | 48            | 237        | 206           | 22                                  | -                                             | 181                                                   | 5,022           |
| 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                |       | 34,358            | 1,039         | 181           | -          | 206           | -                                   | 23                                            | 3,095                                                 | 38,902          |
| Amortization                     | 28    | 4,027             | 349           | 55            | -          | 257           | -                                   | 62                                            | 221                                                   | 4,971           |
| Consolidation of a subsidiary    | 5     | -                 | -             | -             | -          | -             | -                                   | -                                             | 22                                                    | 22              |
| Reclassifications and others     |       | -                 | -             | -             | -          | -             | -                                   | -                                             | (226)                                                 | (226)           |
| Currency translation adjustments |       | -                 | -             | -             | -          | -             | -                                   | -                                             | (26)                                                  | (26)            |
| <b>December 31, 2020</b>         |       | <b>38,385</b>     | <b>1,388</b>  | <b>236</b>    | <b>-</b>   | <b>463</b>    | <b>-</b>                            | <b>85</b>                                     | <b>3,086</b>                                          | <b>43,643</b>   |
| <b>Accumulated Impairment</b>    |       |                   |               |               |            |               |                                     |                                               |                                                       |                 |
| January 1, 2019                  |       | -                 | -             | 20            | -          | -             | -                                   | -                                             | 40                                                    | 60              |
| Impairment                       | 32    | -                 | -             | 30            | -          | -             | -                                   | -                                             | -                                                     | 30              |
| December 31, 2019                |       | -                 | -             | 50            | -          | -             | -                                   | -                                             | 40                                                    | 90              |
| Impairment                       | 32    | -                 | -             | 91            | -          | -             | -                                   | -                                             | -                                                     | 91              |
| <b>December 31, 2020</b>         |       | <b>-</b>          | <b>-</b>      | <b>141</b>    | <b>-</b>   | <b>-</b>      | <b>-</b>                            | <b>-</b>                                      | <b>40</b>                                             | <b>181</b>      |
| <b>Carrying Amount</b>           |       |                   |               |               |            |               |                                     |                                               |                                                       |                 |
| December 31, 2019                |       | P126,514          | P7,981        | P1,009        | P -        | P6,681        | P -                                 | P1,736                                        | P2,178                                                | P146,099        |
| <b>December 31, 2020</b>         |       | <b>P141,839</b>   | <b>P9,592</b> | <b>P1,057</b> | <b>P -</b> | <b>P6,431</b> | <b>P -</b>                          | <b>P6,299</b>                                 | <b>P1,508</b>                                         | <b>P166,726</b> |

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,<br>Trademarks<br>and Brand<br>Names | Goodwill        | Licenses,<br>Trademarks<br>and Brand<br>Names |
| Energy            | <b>P69,944</b>  | <b>P -</b>                                    | P69,944         | P -                                           |
| Fuel and oil      | <b>30,057</b>   | -                                             | 30,345          | -                                             |
| Infrastructure    | <b>21,950</b>   | -                                             | 21,950          | -                                             |
| Packaging         | <b>4,069</b>    | -                                             | 4,121           | -                                             |
| Food and Beverage | <b>3,639</b>    | <b>2,806</b>                                  | 3,639           | 2,915                                         |
| Others            | <b>74</b>       | -                                             | 74              | -                                             |
| <b>Total</b>      | <b>P129,733</b> | <b>P2,806</b>                                 | <b>P130,073</b> | <b>P2,915</b>                                 |

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>       | <b>2020</b>    | <b>2019</b> |
|--------------------------------------------|-------------------|----------------|-------------|
| Noncurrent receivables and deposits - net  | 4, 33, 34, 39, 40 | <b>P28,095</b> | P28,775     |
| Deferred containers - net                  | 4                 | <b>19,015</b>  | 20,125      |
| Advances to contractors and suppliers      |                   | <b>17,443</b>  | 20,589      |
| Restricted cash                            | 4, 39, 40         | <b>4,779</b>   | 6,167       |
| Deposits on land for future development    |                   | <b>3,626</b>   | 3,619       |
| Retirement assets                          | 35                | <b>2,699</b>   | 2,496       |
| Noncurrent prepaid input tax               |                   | <b>2,341</b>   | 3,157       |
| Idle assets                                | 4                 | <b>2,002</b>   | 1,279       |
| Deferred exploration and development costs | 4                 | <b>715</b>     | 711         |
| Catalyst                                   |                   | <b>551</b>     | 683         |
| Noncurrent prepaid rent                    |                   | <b>383</b>     | 295         |
| Derivative assets - noncurrent             | 3, 39, 40         | <b>39</b>      | 241         |
| Deferred financing costs                   |                   | <b>4</b>       | 1,986       |
| Others                                     |                   | <b>1,770</b>   | 2,607       |
|                                            |                   | <b>P83,462</b> | P92,730     |

The movements in deferred containers - net are as follows:

|                                        | <i>Note</i> | <b>2020</b>    | <b>2019</b> |
|----------------------------------------|-------------|----------------|-------------|
| <b>Gross Carrying Amount</b>           |             |                |             |
| Balance at beginning of year           |             | <b>P32,332</b> | P28,948     |
| Additions                              |             | <b>2,903</b>   | 5,672       |
| Disposals/retirement/reclassifications |             | <b>(2,195)</b> | (2,265)     |
| Currency translation adjustments       |             | <b>(113)</b>   | (23)        |
| Balance at end of year                 |             | <b>32,927</b>  | 32,332      |
| <b>Accumulated Amortization</b>        |             |                |             |
| Balance at beginning of year           |             | <b>11,526</b>  | 10,762      |
| Amortization                           | 28          | <b>2,038</b>   | 2,309       |
| Disposals/retirement/reclassifications |             | <b>(362)</b>   | (1,525)     |
| Currency translation adjustments       |             | <b>(24)</b>    | (20)        |
| Balance at end of year                 |             | <b>13,178</b>  | 11,526      |
| <b>Accumulated Impairment</b>          |             |                |             |
| Balance at beginning of year           |             | <b>681</b>     | 579         |
| Impairment                             | 27, 32      | <b>682</b>     | 682         |
| Disposals/reclassifications            |             | <b>(626)</b>   | (580)       |
| Currency translation adjustments       |             | <b>(3)</b>     | -           |
| Balance at end of year                 |             | <b>734</b>     | 681         |
|                                        |             | <b>P19,015</b> | P20,125     |

Noncurrent receivables and deposits include amounts owed by related parties amounting to P3,186 and P4,005 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); and
- 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.

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, the Parent Company 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>       | <b>2020</b>     | 2019     |
|------------------------------|-------------------|-----------------|----------|
| <b>Parent Company</b>        |                   |                 |          |
| Peso-denominated             |                   | <b>P23,950</b>  | P44,750  |
| <b>Subsidiaries</b>          |                   |                 |          |
| Peso-denominated             |                   | <b>108,684</b>  | 120,239  |
| Foreign currency-denominated |                   | <b>8,011</b>    | 4,503    |
|                              | <i>38, 39, 40</i> | <b>P140,645</b> | P169,492 |

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 6.75% 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 P5,017 and P11,798 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>   | <b>2020</b>     | 2019     |
|------------------------------------------------|---------------|-----------------|----------|
| Trade                                          | <i>34</i>     | <b>P65,797</b>  | P100,382 |
| Non-trade                                      |               | <b>62,970</b>   | 51,133   |
| Customers' deposit                             | <i>3</i>      | <b>7,697</b>    | 8,168    |
| Accrued payroll                                |               | <b>6,022</b>    | 5,094    |
| Accrued interest payable                       |               | <b>3,579</b>    | 4,067    |
| Amounts owed to related parties                | <i>33</i>     | <b>2,804</b>    | 2,872    |
| Derivative liabilities                         | <i>39, 40</i> | <b>1,731</b>    | 1,678    |
| Deferred liability on consumer loyalty program |               | <b>1,406</b>    | 867      |
| Retention payable                              |               | <b>534</b>      | 1,323    |
| Current portion of IRO                         | <i>4</i>      | <b>425</b>      | 187      |
| Retirement liabilities                         | <i>35</i>     | <b>160</b>      | 154      |
| Deferred rent income                           |               | <b>65</b>       | 54       |
| Redeemable preferred shares                    | <i>4</i>      | <b>19</b>       | -        |
| Others                                         |               | <b>40</b>       | 58       |
|                                                | <i>39, 40</i> | <b>P153,249</b> | P176,037 |

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:

|                                                                                                                                                                      | 2020           | 2019    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------|
| <b>Parent Company</b>                                                                                                                                                |                |         |
| 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) | <b>P59,622</b> | P59,500 |
| Peso-denominated Term Notes:                                                                                                                                         |                |         |
| Fixed interest rate of 6.9375% with maturities up to 2026 (b)                                                                                                        | <b>15,661</b>  | 15,807  |
| Fixed interest rate of 5.25% (c)                                                                                                                                     | -              | 9,975   |
| Foreign currency-denominated Term Notes:                                                                                                                             |                |         |
| Fixed interest rate of 4.875% maturing in 2023 (d)                                                                                                                   | <b>24,706</b>  | 26,019  |
| Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2024 (e)                                                              | <b>93,914</b>  | 2,364   |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (f)                                                                                              | <b>18,991</b>  | 19,943  |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)                                                                                              | <b>14,261</b>  | 14,989  |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (h)                                                                                              | <b>14,244</b>  | 14,972  |

*Forward*

|                                                                                                                      | 2020           | 2019    |
|----------------------------------------------------------------------------------------------------------------------|----------------|---------|
| Floating interest rate based on LIBOR plus margin, with various maturities up to 2024 (i)                            | <b>P10,489</b> | P15,070 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (j)                                              | <b>9,494</b>   | 9,981   |
|                                                                                                                      | <b>261,382</b> | 188,620 |
| <b>Subsidiaries</b>                                                                                                  |                |         |
| Peso-denominated Bonds:                                                                                              |                |         |
| Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (k) | <b>39,776</b>  | 39,705  |
| Fixed interest rate of 5.3750%, 6.7500%, 6.2500% and 6.6250% maturing in 2022, 2023, 2024 and 2027, respectively (l) | <b>34,770</b>  | 34,699  |
| Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (m)                | <b>29,759</b>  | 29,669  |
| Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (n)                                   | <b>14,984</b>  | 14,962  |
| Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (o)                | <b>14,941</b>  | 14,914  |
| Fixed interest rate of 5.05% and 5.25% maturing in 2025 and 2027, respectively (p)                                   | <b>14,829</b>  | -       |
| Fixed interest rate of 6.60% maturing in 2022 (q)                                                                    | <b>6,988</b>   | 6,979   |
| Fixed interest rate of 5.5796% and 6.4872% maturing in 2022 and 2025, respectively (r)                               | <b>4,877</b>   | 7,265   |
| Peso-denominated Term Notes:                                                                                         |                |         |
| Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (s)                                   | <b>39,843</b>  | 41,274  |
| Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (t)                                               | <b>30,049</b>  | 30,676  |
| Fixed interest rate of 5.556%, 5.825% and 5.9970% with maturities up to 2029 (u)                                     | <b>26,800</b>  | 16,720  |
| Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (v)                                            | <b>18,412</b>  | 19,669  |
| Fixed interest rate of 6.9265% with maturities up to 2024 (w)                                                        | <b>14,468</b>  | 14,597  |
| Fixed interest rate of 5.6276% with maturities up to 2029 (x)                                                        | <b>11,516</b>  | 11,910  |
| Fixed interest rate of 4.63% maturing in 2024 (y)                                                                    | <b>9,939</b>   | 9,925   |
| Fixed interest rate of 3.5483% maturing in 2029 (z)                                                                  | <b>9,932</b>   | -       |
| Fixed interest rate of 5.5276% with maturities up to 2024 (aa)                                                       | <b>8,008</b>   | 10,136  |
| Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (bb)                 | <b>5,003</b>   | 5,779   |

Forward

|                                                                                                                                                                               | 2020          | 2019   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|--------|
| Fixed interest rate of 5.7584% with maturities up to 2022 (cc)                                                                                                                | <b>P4,990</b> | P7,479 |
| Fixed interest rate of 4.59% with maturities up to 2025 (dd)                                                                                                                  | <b>4,970</b>  | -      |
| Fixed interest rate of 8.4211% to 9.885% with maturities up to 2030 (ee)                                                                                                      | <b>4,064</b>  | 4,143  |
| Fixed interest rate of 5.4583% with maturities up to 2022 (ff)                                                                                                                | <b>1,998</b>  | 2,995  |
| Fixed interest rate of 3.2837%, with maturities up to 2026 (gg)                                                                                                               | <b>1,987</b>  | -      |
| Fixed interest rate of 5.00% with maturities up to 2021 (hh)                                                                                                                  | <b>1,499</b>  | 1,498  |
| Fixed interest rate of 6.6583% with maturities up to 2023 (ii)                                                                                                                | <b>1,342</b>  | 1,810  |
| Fixed interest rate of 4.2105% with maturities up to 2023 (jj)                                                                                                                | <b>496</b>    | -      |
| Fixed interest rate of 8.348% (kk)                                                                                                                                            | -             | 877    |
| Fixed interest rate of 8.6615% (ll)                                                                                                                                           | -             | 391    |
| Floating interest rate based on BVAL plus margin, or <i>Bangko Sentral ng Pilipinas</i> (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2029 (z) | <b>7,944</b>  | 9,925  |
| Floating interest rate based on BVAL plus margin with maturities up to 2025 (mm)                                                                                              | <b>4,419</b>  | -      |
| Floating interest rate based on BVAL plus margin with maturities up to 2023 (nn)                                                                                              | <b>3,216</b>  | 3,740  |
| Floating interest rate based on BVAL plus margin, with maturities up to 2024 (oo)                                                                                             | <b>1,909</b>  | 547    |
| Floating interest rate based on BVAL plus margin, with maturities up to 2022 (pp)                                                                                             | <b>1,879</b>  | 2,356  |
| Floating interest rate based on BVAL plus margin, with maturities up to 2026 (gg)                                                                                             | -             | 1,985  |
| Foreign currency-denominated Term Notes:                                                                                                                                      |               |        |
| Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (qq/uu)                                                                         | <b>25,597</b> | 27,835 |
| Floating interest rate based on LIBOR plus margin, maturing in 2021 and 2023 (rr)                                                                                             | <b>33,306</b> | 34,924 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (ss)                                                                                            | <b>32,334</b> | 39,908 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (tt)                                                                                            | <b>13,530</b> | 32,854 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (qq/uu)                                                                                | <b>8,457</b>  | 9,218  |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (vv)                                                                                                      | <b>7,003</b>  | -      |

Forward

|                                                                                                         | <b>Note</b>       | <b>2020</b>     | <b>2019</b> |
|---------------------------------------------------------------------------------------------------------|-------------------|-----------------|-------------|
| Floating interest rate based on LIBOR plus margin, with maturities up to 2025 (ww)                      |                   | <b>P6,845</b>   | P -         |
| Floating interest rate based on Bank Bill Swap Rate (BBSY) plus margin, with maturities up to 2024 (xx) |                   | <b>2,827</b>    | 2,792       |
| Floating interest rate based on Cost of Fund (COF) plus margin, with various maturities up to 2027 (yy) |                   | <b>21</b>       | 28          |
|                                                                                                         |                   | <b>505,527</b>  | 494,184     |
|                                                                                                         | <b>38, 39, 40</b> | <b>766,909</b>  | 682,804     |
| Less current maturities                                                                                 |                   | <b>74,502</b>   | 43,808      |
|                                                                                                         |                   | <b>P692,407</b> | P638,996    |

a. The amount represents the first, second, third and fourth tranche of the P60,000 shelf registered fixed rate bonds issued by the Parent Company 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 drawdown by the Parent Company 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.

The Parent Company 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.

- c. The amount represents P10,000 Fixed-Rate Notes due in 2020 issued by the Parent Company 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 the Parent Company.

The Parent Company redeemed the Fixed-Rate Notes on May 25, 2020.

Unamortized debt issue costs amounted to P25 as at December 31, 2019.

- d. 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 the Parent Company. 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, the Parent Company 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.

- e. The amount represents the drawdown by the Parent Company 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.

- f. The amount represents the drawdown by the Parent Company 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.

- g. The amount represents the drawdown by the Parent Company 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.

- h. The amount represents the drawdown by the Parent Company 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.

- i. The amount represents the drawdown by the Parent Company 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, the Parent Company 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.

- j. The amount represents the drawdown by the Parent Company 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.

- k. 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.

- i. 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.

- m. 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.

- n. 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.

- o. 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.

- p. 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 10<sup>th</sup> 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.

- q. 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.

- r. 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.

- s. 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.

- t. 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.

- u. 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.

- v. 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.

- w. 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.

- x. 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.

- y. 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.

- z. 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.

- aa. 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.

- bb. 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.

- cc. 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.

- dd. 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.

- ee. 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.

- ff. 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.

- gg. 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.

- hh. 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.

- ii. 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.

- jj. 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.

- kk. 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.

- ll. 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.

- mm. 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.

- nn. The amount represents drawdown of 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.

- oo. 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.

- pp. 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.

qq. 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.

rr. 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.

ss. 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.

tt. 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.



uu. 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.

vv. 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.

ww. 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.

xx. 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.

yy. 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 the Parent Company 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 the Parent Company 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.

The Parent Company 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 the Parent Company 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 the Parent Company 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:

|                                          | <b>Note</b> | <b>2020</b>    | <b>2019</b> |
|------------------------------------------|-------------|----------------|-------------|
| Balance at beginning of year             |             | <b>P7,345</b>  | P6,848      |
| Additions                                | 18          | <b>3,308</b>   | 2,577       |
| Amortization                             | 30          | <b>(2,282)</b> | (1,968)     |
| Reclassification, capitalized and others |             | <b>(122)</b>   | (112)       |
| Balance at end of year                   |             | <b>P8,249</b>  | P7,345      |

#### Repayment Schedule

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

| <b>Year</b>         | <b>Gross Amount</b> | <b>Debt Issue Costs</b> | <b>Net</b>      |
|---------------------|---------------------|-------------------------|-----------------|
| 2021                | P75,348             | P846                    | P74,502         |
| 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         |
| <b>Total</b>        | <b>P775,158</b>     | <b>P8,249</b>           | <b>P766,909</b> |

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:

|                                                  | <b>Note</b>   | <b>2020</b>    | <b>2019</b> |
|--------------------------------------------------|---------------|----------------|-------------|
| Amounts owed to related parties                  | 33            | <b>P7,277</b>  | P7,533      |
| Retirement liabilities - noncurrent              | 35            | <b>6,734</b>   | 6,485       |
| ARO                                              | 4             | <b>3,735</b>   | 2,217       |
| Retention payable - noncurrent                   |               | <b>3,243</b>   | 1,702       |
| Derivative liabilities - noncurrent              | 4, 39, 40     | <b>2,167</b>   | 1,444       |
| Cash bonds                                       |               | <b>947</b>     | 750         |
| IRO                                              | 4             | <b>730</b>     | 640         |
| Cylinder deposits                                |               | <b>617</b>     | 608         |
| Concession liabilities                           |               | <b>91</b>      | 94          |
| Obligation to ROP - service concession agreement | 4, 34         | <b>66</b>      | 76          |
| MRO                                              | 4, 5          | <b>46</b>      | -           |
| Redeemable preferred shares                      | 4             | <b>-</b>       | 19          |
| Others                                           |               | <b>648</b>     | 624         |
|                                                  | <b>39, 40</b> | <b>P26,301</b> | P22,192     |

"Others" include customers deposits, deferred rent and liability to a contractor and supplier.

## **23. Income Taxes**

The components of income tax expense are shown below:

|          | <b>2020</b>    | <b>2019</b> | <b>2018</b> |
|----------|----------------|-------------|-------------|
| Current  | <b>P15,540</b> | P22,691     | P22,733     |
| Deferred | <b>(9)</b>     | 5,822       | 1,735       |
|          | <b>P15,531</b> | P28,513     | P24,468     |

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

| <b>2020</b>                                                                  | <b>Balance at January 1</b> | <b>Recognized in Profit or Loss</b> | <b>Recognized in Other Comprehensive Income</b> | <b>Others</b> | <b>Balance at December 31</b> |
|------------------------------------------------------------------------------|-----------------------------|-------------------------------------|-------------------------------------------------|---------------|-------------------------------|
| 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                                   | (2,181)                     | (3,575)                             | 93                                              | 195           | (5,468)                       |
|                                                                              | <b>(P7,213)</b>             | <b>P9</b>                           | <b>P130</b>                                     | <b>P271</b>   | <b>(P6,803)</b>               |

| <b>2019</b>                                                                  | <b>Balance at January 1</b> | <b>Adjustment Due to Adoption of PFRS 16</b> | <b>Recognized in Profit or Loss</b> | <b>Recognized in Other Comprehensive Income</b> | <b>Others</b> | <b>Balance at December 31</b> |
|------------------------------------------------------------------------------|-----------------------------|----------------------------------------------|-------------------------------------|-------------------------------------------------|---------------|-------------------------------|
| 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                                   | (1,739)                     | -                                            | (1,430)                             | 1,116                                           | (128)         | (2,181)                       |
|                                                                              | <b>(P3,650)</b>             | <b>P1,194</b>                                | <b>(P5,822)</b>                     | <b>P1,156</b>                                   | <b>(P91)</b>  | <b>(P7,213)</b>               |

The above amounts are reported in the consolidated statements of financial position as follows:

|                          | <b>Note</b> | <b>2020</b>     | <b>2019</b> |
|--------------------------|-------------|-----------------|-------------|
| Deferred tax assets      | 4           | <b>P20,946</b>  | P18,052     |
| Deferred tax liabilities |             | <b>(27,749)</b> | (25,265)    |
|                          |             | <b>(P6,803)</b> | (P7,213)    |

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:

| <b>Year Incurred/Paid</b> | <b>Carryforward Benefits Up To</b> | <b>NOLCO</b>   | <b>MCIT</b>   |
|---------------------------|------------------------------------|----------------|---------------|
| 2018                      | December 31, 2021                  | <b>P33</b>     | <b>P16</b>    |
| 2019                      | December 31, 2022                  | <b>283</b>     | <b>57</b>     |
| 2020                      | December 31, 2025                  | <b>35,857</b>  | <b>1,064</b>  |
|                           |                                    | <b>P36,173</b> | <b>P1,137</b> |

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                                     | (4.96%) | (4.15%) | (2.95%) |
| Equity in net loss (earnings) of associates and joint ventures           | (0.33%) | (0.04%) | 0.12%   |
| Loss (gain) on sale of investments subject to final or capital gains tax | 0.39%   | 0.09%   | (0.10%) |
| Others, mainly income subject to different tax rates - net               | 16.42%  | 11.09%  | 6.39%   |
| Effective income tax rate                                                | 41.52%  | 36.99%  | 33.46%  |

**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 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<br>(decrease) |
|-------------------------------------------|------------------------|
| <b>ASSETS</b>                             |                        |
| Prepaid expenses and other current assets | P406                   |
| Investments and advances - net            | 11                     |
| Deferred tax assets                       | (4,291)                |
|                                           | (P3,874)               |

Forward

|                                                         | Increase<br>(decrease) |
|---------------------------------------------------------|------------------------|
| <b>LIABILITIES</b>                                      |                        |
| Income and other taxes payable                          | (P870)                 |
| Deferred tax liabilities                                | (6,758)                |
|                                                         | (7,628)                |
| <b>EQUITY</b>                                           |                        |
| Equity reserves                                         | 268                    |
| Retained earnings                                       | 3,246                  |
| Non-controlling interests                               | 240                    |
|                                                         | 3,754                  |
| <b>TOTAL LIABILITIES AND EQUITY</b>                     | (P3,874)               |
| <b>INCOME BEFORE INCOME TAX</b>                         |                        |
| Equity in net earnings of associates and joint ventures | P11                    |
| <b>INCOME TAX EXPENSE</b>                               |                        |
| Current                                                 | (1,276)                |
| Deferred                                                | (2,127)                |
|                                                         | (3,403)                |
| <b>NET INCOME</b>                                       | P3,414                 |
| Attributable to:                                        |                        |
| Equity holders of the Parent Company                    | P3,246                 |
| Non-controlling interests                               | 168                    |
|                                                         | P3,414                 |

## 24. Equity

### a. Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares, consisting of 691,099,686 Series "1" preferred treasury shares to Series "2" preferred treasury shares and 118,900,314 Series "1" preferred unissued shares to Series "2" preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" preferred shares and 1,910,000,000 for Series "2" preferred shares. The stockholders also approved the issuance of the Series "2" preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares was approved by the SEC on July 14, 2015.

*b. Capital Stock*

Common Shares

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both are available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 34,013 and 34,164 common stockholders as at December 31, 2020 and 2019 respectively.

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

|                                                    | 2020                 | 2019          | 2018          |
|----------------------------------------------------|----------------------|---------------|---------------|
| Issued and outstanding shares at beginning of year | <b>3,288,649,125</b> | 3,288,649,125 | 3,287,018,252 |
| Issuances during the year                          | -                    | -             | 1,630,873     |
| Issued shares at end of year                       | <b>3,288,649,125</b> | 3,288,649,125 | 3,288,649,125 |
| Less treasury shares                               | <b>904,752,537</b>   | 904,752,537   | 904,752,537   |
| Issued and outstanding shares at end of year       | <b>2,383,896,588</b> | 2,383,896,588 | 2,383,896,588 |

In 2018, 1,630,873 common shares were exercised by the executives of the Group under the Long-term Incentive Plan for Stock Options (LTIP). The shares were valued at fair value using the Black-Scholes option pricing model at the date of grant, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

The Plan has been discontinued in 2018 and all LTIP options not yet exercised were considered lapsed.

## Preferred Shares

### i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Parent Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as at July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On December 8, 2010 and October 3, 2011, the Parent Company listed 873,173,353 and 97,333,000 Series "1" preferred shares worth P65,488 and P7,300, respectively.

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share.

On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury.

On April 14, 2015, the Parent Company reissued 279,406,667 Series "1" preferred shares held in treasury in the name of certain subscribers at P75.00 per share. The Series "1" preferred shares became tradable at the PSE beginning June 10, 2015.



The Parent Company has 279,406,667 outstanding Series “1” preferred shares held by three stockholders as at December 31, 2019.

On March 12, 2020, the BOD of the Parent Company approved the redemption of Series “1” preferred shares at a redemption price of P75.00 per share.

On April 14, 2020, 279,406,667 Series “1” preferred shares were reverted to treasury.

The Parent Company has 279,406,667 Series “1” preferred shares held in treasury as at December 31, 2020.

The Parent Company has no outstanding Series “1” preferred shares as at December 31, 2020.

ii. Series “2” Preferred Shares

*Subseries 2-A, 2-B and 2-C*

In September 2012, the Parent Company issued 1,067,000,000 Series “2” preferred shares at the issue price of P75.00 per share. The said Series “2” preferred shares worth P80,025 were listed at the PSE on September 28, 2012. The SEC approved the registration and issued a permit to sell on August 10, 2012.

The Series “2” preferred shares were issued in three subseries (Subseries “2-A”, Subseries “2-B” and Subseries “2-C”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the third, fifth and seventh year and every dividend payment thereafter, with a “step-up” rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625%, and 8.000% per annum for Subseries “2-A”, “2-B” and “2-C”, respectively.

On September 21, 2015, the Parent Company redeemed its 721,012,400 Series “2” preferred shares - Subseries “2-A” at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P54,076 to the holders of Subseries “2-A” preferred shares.

On September 23, 2019, the Parent Company redeemed its 90,428,200 Series “2” preferred shares - Subseries “2-B” at a redemption price of P75.00 per share. The Parent Company paid P6,782 to the holders of Subseries “2-B” preferred shares.

*Subseries 2-D, 2-E and 2-F*

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series “2” preferred shares held in treasury in three subseries (Subseries “2-D”, Subseries “2-E” and Subseries “2-F”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries “2-D”, “2-E” and “2-F”, respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

On September 21, 2020, the Parent Company redeemed its 89,333,400 Series “2” preferred shares - Subseries “2-D” at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P6,700 to the holders of Subseries “2-D” preferred shares.

*Subseries 2-G, 2-H and 2-I*

On February 24, 2016, the BOD of PSE approved the listing application of the Parent Company of up to 975,571,800 shares of Series “2” preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 400,000,000 shares of 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 the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

The Parent Company offered the “First Tranche” of up to: (i) 280,000,000 shares of Series “2” preferred shares consisting of Subseries “2-G”, “2-H” and “2-I” and (ii) 120,000,000 shares of Series “2” preferred shares to cover the oversubscription option. The First Tranche was re-issued and offered from the Series “2” preferred shares Subseries held in treasury. The First Tranche was issued on March 30, 2016 which was also the listing date of the Shelf Registered Shares.

Dividend rates are 6.5793%, 6.3222% and 6.3355% per annum for Subseries “2-G”, “2-H” and “2-I”, respectively.

Following the completion of the Parent Company’s follow-on offering of 280,000,000 Series “2” preferred shares, with an oversubscription option of 120,000,000 Series “2” preferred shares, the Parent Company re-issued the Series “2” preferred shares held in treasury, as follows: (i) 244,432,686 Series “2” preferred shares; and (ii) 155,567,314 Subseries “2-A” preferred shares (collectively, the “Offer Shares”). The Series “2” preferred shares were Series “1” preferred shares held in treasury that were reclassified to Series “2” preferred shares on June 9, 2015.

The remaining 575,571,800 Shelf Registered Shares will no longer be issued due to the expiration of the shelf registration, which is a period of three years from the date of approval.

*Subseries 2-J and 2-K*

On September 30, 2020, the BOD of PSE approved the listing application of the Parent Company 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.

The Parent Company offered the First Tranche consisting of: (i) 133,333,400 Subseries “2-J” preferred shares; and (ii) an Oversubscription Option of up to 133,333,267 Subseries “2-J” preferred shares at an offer price of P75.00 per share. The First Tranche consisting of 266,666,667 Subseries “2-J” Preferred Shares was issued on October 29, 2020, which was also the date when the First Tranche was listed on the PSE.

The Parent Company offered a Second Tranche of the Shelf Registered Shares, consisting of (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.

The First and Second Tranche were re-issued and offered from the Subseries “2-A” preferred shares held in treasury.

Dividend rates for Subseries “2-J” and “2-K” are 4.75% and 4.50% per annum, respectively.

The Parent Company has 294,635,119 and 655,873,286 Series “2” preferred shares held in treasury as at December 31, 2020 and 2019, respectively.

The Parent Company has 1,463,464,567 and 1,102,226,400 outstanding Series “2” preferred shares as at December 31, 2020 and 2019 and has a total of 910 and 1,043 preferred stockholders as at December 31, 2020 and 2019, respectively.

*c. Treasury Shares*

Treasury shares consist of:

|           | <b>2020</b>     | 2019     | 2018     |
|-----------|-----------------|----------|----------|
| Common    | <b>P67,093</b>  | P67,093  | P67,093  |
| Preferred | <b>43,053</b>   | 49,190   | 42,408   |
|           | <b>P110,146</b> | P116,283 | P109,501 |

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as at December 31, 2020, 2019 and 2018.

1. A portion of the total treasury shares of the Parent Company 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 the Parent Company 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 the Parent Company 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 the Parent Company 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, the Parent Company 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 the Parent Company, 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 the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company 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 the Parent Company. The financial advisor stated that if the Parent Company 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 the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company 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 the Parent Company 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 the Parent Company 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 the Parent Company 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 the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company 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 the Parent Company 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 the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company 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 the Parent Company'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 the Parent Company 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 the Parent Company 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 the Parent Company 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 the Parent Company 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 the Parent Company, 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, the Parent Company 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 the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the Parent Company 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 the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

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 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (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 the Parent Company 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) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; 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 the Parent Company 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 the Parent Company, 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 the Parent Company'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.

The Parent Company, 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, the Parent Company 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 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (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 the Parent Company to the 25,450,000 treasury shares of the Parent Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

2. In 2009, 873,173,353 common shares reverted to treasury were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.
3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 SMC common shares held by Top Frontier, priced at P110.00 per share.
4. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Parent Company.

In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as at December 31, 2014.

5. In 2014 and 2013, 68,150 common shares and 3,410,250 common shares, respectively, under the Parent Company's Employee Stock Purchase Plan (ESPP) were cancelled and held in treasury shares.

Under the ESPP, employees of the Parent Company and certain subsidiaries receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of the Parent Company.

The ESPP allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock.

In 2016, the Parent Company discontinued the ESPP.

*d. Capital Securities*

Senior Perpetual Capital Securities

On December 5, 2019, the BOD 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 the Parent Company 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 the Parent Company ready access to funding and will give the Parent Company 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, the Parent Company issued US\$500 SPCS at an issue price of 100%, with an initial rate of distribution of 5.5% per annum, payable every January 29 and July 29 of each year. The securities were issued under the Parent Company's US\$3,000 Medium Term Note and Securities Programme. The net proceeds will be used to finance investments and various projects, refinance existing obligations and for general corporate purposes.



#### Redeemable Perpetual Securities

On various dates in June and July 2020, the Parent Company 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, the Parent Company 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 the Parent Company 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, the Parent Company 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. The Parent Company has the right to defer this distribution under certain conditions.

The net proceeds of RPS were used by the Parent Company for general corporate requirements.

The amount of RPS presented in the consolidated financial statements is net of the US\$100 RPS issued to a related party.

#### *e. Unappropriated Retained Earnings*

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 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.

#### *f. Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P16,620, P13,109 and P15,164 in 2020, 2019 and 2018, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P10,359, P29,436 and P7,926 in 2020, 2019 and 2018, respectively.

## 25. Sales

Sales consist of:

|          | <b>Note</b> | <b>2020</b>     | 2019       | 2018       |
|----------|-------------|-----------------|------------|------------|
| Goods    |             | <b>P708,144</b> | P992,252   | P995,633   |
| Services |             | <b>17,653</b>   | 28,250     | 29,310     |
|          | <b>6</b>    | <b>P725,797</b> | P1,020,502 | P1,024,943 |

## 26. Cost of Sales

Cost of sales consist of:

|                                 | <b>Note</b> | <b>2020</b>     | 2019     | 2018     |
|---------------------------------|-------------|-----------------|----------|----------|
| Inventories                     |             | <b>P367,125</b> | P565,273 | P592,560 |
| Taxes and licenses              |             | <b>82,647</b>   | 95,775   | 79,100   |
| Depreciation and amortization   | 28          | <b>29,808</b>   | 31,888   | 30,498   |
| Energy fees                     | 34          | <b>20,365</b>   | 26,417   | 25,424   |
| Contracted services             |             | <b>15,119</b>   | 16,032   | 16,393   |
| Power purchases                 | 34          | <b>13,006</b>   | 21,565   | 11,321   |
| Personnel                       | 29          | <b>9,453</b>    | 10,093   | 11,250   |
| Freight, trucking and handling  |             | <b>9,260</b>    | 12,003   | 11,817   |
| Fuel and oil                    |             | <b>8,367</b>    | 15,508   | 23,979   |
| Tolling fees                    | 34          | <b>7,493</b>    | 8,959    | 8,889    |
| Repairs and maintenance         |             | <b>5,101</b>    | 4,643    | 5,968    |
| Communications, light and water |             | <b>5,094</b>    | 6,643    | 6,198    |
| Rent                            | 4, 34       | <b>419</b>      | 566      | 945      |
| Others                          |             | <b>3,192</b>    | 3,450    | 1,406    |
|                                 |             | <b>P576,449</b> | P818,815 | P825,748 |

## 27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

|                | <b>2020</b>    | 2019    | 2018    |
|----------------|----------------|---------|---------|
| Selling        | <b>P33,409</b> | P41,345 | P42,718 |
| Administrative | <b>44,463</b>  | 44,627  | 39,392  |
|                | <b>P77,872</b> | P85,972 | P82,110 |

Selling expenses consist of:

|                                 | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|---------------------------------|-------------|----------------|---------|---------|
| Personnel                       | 29          | <b>P8,727</b>  | P10,022 | P11,302 |
| Freight, trucking and handling  |             | <b>8,293</b>   | 10,484  | 9,853   |
| Advertising and promotions      |             | <b>5,375</b>   | 9,682   | 8,987   |
| Depreciation and amortization   | 28          | <b>4,098</b>   | 4,050   | 3,092   |
| Rent                            | 4, 34       | <b>1,878</b>   | 1,819   | 3,694   |
| Repairs and maintenance         |             | <b>1,278</b>   | 1,505   | 1,449   |
| Taxes and licenses              |             | <b>838</b>     | 841     | 786     |
| Supplies                        |             | <b>557</b>     | 575     | 663     |
| Professional fees               |             | <b>518</b>     | 659     | 683     |
| Communications, light and water |             | <b>420</b>     | 464     | 494     |
| Others                          |             | <b>1,427</b>   | 1,244   | 1,715   |
|                                 |             | <b>P33,409</b> | P41,345 | P42,718 |

Administrative expenses consist of:

|                                 | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|---------------------------------|-------------|----------------|---------|---------|
| Personnel                       | 29          | <b>P21,094</b> | P21,788 | P18,543 |
| Depreciation and amortization   | 28          | <b>7,438</b>   | 7,123   | 4,689   |
| Taxes and licenses              |             | <b>3,569</b>   | 3,567   | 3,415   |
| Professional fees               |             | <b>2,331</b>   | 2,278   | 2,926   |
| Impairment loss                 | 8, 9, 18    | <b>1,785</b>   | 1,044   | 1,024   |
| Repairs and maintenance         |             | <b>1,686</b>   | 2,079   | 1,321   |
| Rent                            | 4, 34       | <b>1,154</b>   | 1,077   | 605     |
| Supplies                        |             | <b>903</b>     | 772     | 653     |
| Freight, trucking and handling  |             | <b>842</b>     | 581     | 388     |
| Communications, light and water |             | <b>802</b>     | 1,066   | 785     |
| Research and development        |             | <b>50</b>      | 152     | 152     |
| Others                          | 34          | <b>2,809</b>   | 3,100   | 4,891   |
|                                 |             | <b>P44,463</b> | P44,627 | P39,392 |

“Others” consist of entertainment and amusement, gas and oil, and other administrative expenses.

## 28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

|                                                   | <b>Note</b>    | <b>2020</b>    | 2019    | 2018    |
|---------------------------------------------------|----------------|----------------|---------|---------|
| Cost of sales:                                    |                |                |         |         |
| Property, plant and equipment                     | 13             | <b>P16,512</b> | P19,042 | P22,682 |
| Right-of-use assets                               | 14             | <b>5,596</b>   | 5,434   | -       |
| Deferred containers, biological assets and others | 15, 16, 17, 18 | <b>7,700</b>   | 7,412   | 7,816   |
|                                                   | 26             | <b>29,808</b>  | 31,888  | 30,498  |
| Selling and administrative expenses:              |                |                |         |         |
| Property, plant and equipment                     | 13             | <b>5,188</b>   | 4,619   | 3,891   |
| Right-of-use assets                               | 14             | <b>1,098</b>   | 1,255   | -       |
| Deferred containers and others                    | 15, 17, 18     | <b>5,250</b>   | 5,299   | 3,890   |
|                                                   | 27             | <b>11,536</b>  | 11,173  | 7,781   |
|                                                   |                | <b>P41,344</b> | P43,061 | P38,279 |

“Others” include amortization of concession rights, mineral rights, computer software, leasehold and land use rights, licenses and investment property.

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## 29. Personnel Expenses

Personnel expenses consist of:

|                         | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|-------------------------|-------------|----------------|---------|---------|
| Salaries and wages      |             | <b>P22,334</b> | P22,222 | P20,970 |
| Retirement costs - net  | 35          | <b>1,830</b>   | 1,202   | 2,002   |
| Other employee benefits |             | <b>15,110</b>  | 18,479  | 18,123  |
|                         |             | <b>P39,274</b> | P41,903 | P41,095 |

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Personnel expenses are distributed as follows:

|                         | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|-------------------------|-------------|----------------|---------|---------|
| Cost of sales           | 26          | <b>P9,453</b>  | P10,093 | P11,250 |
| Selling expenses        | 27          | <b>8,727</b>   | 10,022  | 11,302  |
| Administrative expenses | 27          | <b>21,094</b>  | 21,788  | 18,543  |
|                         |             | <b>P39,274</b> | P41,903 | P41,095 |

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## 30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

|                         | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|-------------------------|-------------|----------------|---------|---------|
| Interest expense        |             | <b>P46,730</b> | P50,901 | P41,518 |
| Other financing charges | 21, 35      | <b>5,305</b>   | 5,118   | 3,978   |
|                         |             | <b>P52,035</b> | P56,019 | P45,496 |

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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 and lease liabilities is as follows:

|                   | <b>Note</b> | <b>2020</b>    | 2019    | 2018    |
|-------------------|-------------|----------------|---------|---------|
| Loans payable     | 19          | <b>P7,144</b>  | P10,473 | P7,141  |
| Long-term debt    | 21          | <b>32,121</b>  | 31,694  | 25,983  |
| Lease liabilities | 14, 34      | <b>7,465</b>   | 8,734   | 8,394   |
|                   |             | <b>P46,730</b> | P50,901 | P41,518 |

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## 31. Interest Income

Interest income consists of:

|                                                                | <b>Note</b> | <b>2020</b>   | 2019    | 2018   |
|----------------------------------------------------------------|-------------|---------------|---------|--------|
| Interest from short-term investments, cash in banks and others | 7, 12, 35   | <b>P5,849</b> | P10,287 | P6,709 |
| Interest on amounts owed by related parties                    | 33          | <b>333</b>    | 388     | 483    |
|                                                                |             | <b>P6,182</b> | P10,675 | P7,192 |

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### 32. Other Income (Charges)

Other income (charges) consists of:

|                                                      | Note      | 2020            | 2019     | 2018     |
|------------------------------------------------------|-----------|-----------------|----------|----------|
| Construction revenue (a)                             | 4, 17, 34 | <b>P22,747</b>  | P25,386  | P23,062  |
| Miscellaneous gain (b)                               | 5, 43     | <b>7,971</b>    | 1,430    | -        |
| Gain (loss) on foreign exchange - net                | 39        | <b>5,444</b>    | 5,422    | (9,714)  |
| PSALM monthly fees reduction                         |           | <b>2,581</b>    | 1,171    | 1,615    |
| Dividend income                                      |           | <b>1,344</b>    | 1,886    | 1,887    |
| Gain on fair valuation of investment                 | 5, 11     | <b>894</b>      | 727      | -        |
| Reversal of (additional provision on) impairment (c) | 8, 13, 18 | <b>192</b>      | (1,573)  | (771)    |
| Construction costs (a)                               | 4, 17, 34 | <b>(22,747)</b> | (25,386) | (23,062) |
| Gain (loss) on derivatives - net                     | 40        | <b>(5,007)</b>  | (3,308)  | 805      |
| Others (d)                                           |           | <b>(1,558)</b>  | 1,093    | 550      |
|                                                      |           | <b>P11,861</b>  | P6,848   | (P5,628) |

- 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.

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### **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    |
|------------------------------|---------------|-------------|------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------------------------------------------------------------|---------------|
| Ultimate Parent Company      | 8, 10, 18, 36 | 2020        | P7                           | P -                            | P3,439                          | P551                            | On demand;                                                                            | Unsecured;    |
|                              |               | 2019        | 7                            | -                              | 3,626                           | 551                             | non-interest bearing                                                                  | no impairment |
|                              | 18            | 2020        | -                            | -                              | 3,037                           | -                               | To be settled on the first anniversary of commercial operations of the Nonoc Project; | Unsecured;    |
|                              |               | 2019        | -                            | -                              | 3,037                           | -                               | interest bearing                                                                      | no impairment |
| Retirement Plans             | 8, 35         | 2020        | 294                          | -                              | 9,044                           | -                               | On demand;                                                                            | Unsecured;    |
|                              |               | 2019        | 301                          | -                              | 9,275                           | -                               | interest bearing                                                                      | no impairment |
| Associates                   | 8, 18, 20     | 2020        | 2,086                        | 18                             | 761                             | 29                              | On demand; interest                                                                   | Unsecured;    |
|                              |               | 2019        | 3,054                        | 178                            | 1,879                           | 251                             | and non-interest bearing                                                              | no impairment |
|                              | 19, 21        | 2020        | -                            | -                              | -                               | 14,670                          | Less than 1 to 10 years;                                                              | Unsecured and |
|                              |               | 2019        | -                            | -                              | -                               | 22,474                          | interest bearing                                                                      | 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 |
| Shareholders in Subsidiaries | 8, 20         | 2020        | 60                           | 470                            | 117                             | 2,249                           | On demand;                                                                            | Unsecured;    |
|                              |               | 2019        | 38                           | 57                             | 113                             | 2,375                           | non-interest bearing                                                                  | no impairment |
| Others                       | 8, 10, 20, 22 | 2020        | 1,758                        | 2,574                          | 542                             | 7,293                           | On demand;                                                                            | Unsecured;    |
|                              |               | 2019        | 2,521                        | 2,468                          | 497                             | 7,739                           | non-interest bearing                                                                  | no impairment |
| <b>Total</b>                 |               | <b>2020</b> | <b>P4,477</b>                | <b>P4,546</b>                  | <b>P17,682</b>                  | <b>P25,313</b>                  |                                                                                       |               |
| <b>Total</b>                 |               | <b>2019</b> | <b>P6,285</b>                | <b>P3,662</b>                  | <b>P19,182</b>                  | <b>P33,446</b>                  |                                                                                       |               |

- a. Amounts owed by related parties consist of current and noncurrent receivable, advances to suppliers and deposits and share in expenses.

Amounts owed by related parties include interest bearing receivable from the Ultimate Parent Company related to the remaining balance of the consideration for the sale of Clariden Holdings, Inc. (Clariden) amounting to P2,312 and the assignment of certain receivables of the Ultimate Parent Company amounting to P725.

- (i) *Amounts owed by the Ultimate Parent Company amounting to P2,312:* On September 27, 2019, SMC and Top Frontier agreed in writing that the second payment amounting to P1,099, plus 5.75% interest per annum of any portion thereof unpaid, and the final payment amounting to P1,213, plus 6.00% per annum of any portion thereof unpaid, shall be payable and the interest shall be accrued, on the first anniversary of commercial operations of the Nonoc Project or such extended date as may be mutually agreed by the parties in writing. As a result, no accrual of interest was made as at December 31, 2020 and 2019. The Nonoc Project is primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte undertaken by Pacific Nickel Philippines, Inc., an indirect subsidiary of Clariden. These amounts are included as part of noncurrent receivables and deposits under "Other noncurrent assets - net" account in the consolidated statement of financial position as at December 31, 2020 and 2019 (Note 18).
- (ii) *Amounts owed by the Ultimate Parent Company amounting to P725:* These amounts are subject to 5.75% interest per annum and will accrue upon commencement of commercial operations of the Nonoc Project. As a result, no accrual of interest was made as at December 31, 2020 and 2019. These amounts are included as part of noncurrent receivables and deposit under "Other noncurrent assets - net" account in the consolidated statements of financial position as at December 31, 2020 and 2019 (Note 18).
- b. 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 amount owed to the Ultimate Parent Company pertains to dividends payable (Note 36).

- c. 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.
- d. The compensation of key management personnel of the Group, by benefit type, follows:

|                              | <b>Note</b> | <b>2020</b> | 2019 | 2018 |
|------------------------------|-------------|-------------|------|------|
| Short-term employee benefits |             | <b>P477</b> | P689 | P742 |
| Retirement cost              | 35          | <b>31</b>   | 20   | 8    |
|                              |             | <b>P508</b> | 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.

- *Coal Supply Agreements*

SMEC, SMCP, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

- *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.

- *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.

○ 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 9, 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 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.

○ *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 the Parent Company, 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.

○ *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.

○ 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.

- 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.

- 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<br>(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.

## 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 P157,014 and P94,158 as at December 31, 2020 and P162,201 and P119,835 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 P6,045, P7,290 and P8,321 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 P5,244 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:

| <b>Operating Leases under PFRS 16</b> | <b>2020</b>    | <b>2019</b> |
|---------------------------------------|----------------|-------------|
| Within one year                       | <b>P856</b>    | P1,421      |
| One to two years                      | <b>656</b>     | 943         |
| Two to three years                    | <b>653</b>     | 668         |
| Three to four years                   | <b>619</b>     | 511         |
| Four to five years                    | <b>573</b>     | 548         |
| More than five years                  | <b>9,552</b>   | 7,809       |
|                                       | <b>P12,909</b> | 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).

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### **35. Retirement Plans**

The Parent Company 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 the Parent Company 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 the Parent Company and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

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     |
| <b>Balance at beginning of year</b>                                           | <b>P30,869</b>            | P33,468 | <b>(P33,265)</b>                                       | (P32,779) | <b>(P1,747)</b>         | (P3,321) | <b>(P4,143)</b>                          | (P2,632) |
| <b>Benefit asset (obligation) of consolidated/deconsolidated subsidiaries</b> | <b>338</b>                | (40)    | <b>(554)</b>                                           | 143       | -                       | -        | <b>(216)</b>                             | 103      |
| <b>Recognized in profit or loss</b>                                           |                           |         |                                                        |           |                         |          |                                          |          |
| Service costs                                                                 | -                         | -       | <b>(1,830)</b>                                         | (1,168)   | -                       | -        | <b>(1,830)</b>                           | (1,168)  |
| Interest expense                                                              | -                         | -       | <b>(1,695)</b>                                         | (2,330)   | -                       | -        | <b>(1,695)</b>                           | (2,330)  |
| Interest income                                                               | <b>1,571</b>              | 2,401   | -                                                      | -         | -                       | -        | <b>1,571</b>                             | 2,401    |
| Interest on the effect of asset ceiling                                       | -                         | -       | -                                                      | -         | <b>(89)</b>             | (247)    | <b>(89)</b>                              | (247)    |
| Settlement loss                                                               | -                         | -       | -                                                      | (34)      | -                       | -        | -                                        | (34)     |
|                                                                               | <b>1,571</b>              | 2,401   | <b>(3,525)</b>                                         | (3,532)   | <b>(89)</b>             | (247)    | <b>(2,043)</b>                           | (1,378)  |
| <b>Recognized in other comprehensive income</b>                               |                           |         |                                                        |           |                         |          |                                          |          |
| Remeasurements                                                                |                           |         |                                                        |           |                         |          |                                          |          |
| Actuarial gains (losses) arising from:                                        |                           |         |                                                        |           |                         |          |                                          |          |
| Experience adjustments                                                        | -                         | -       | <b>2,532</b>                                           | (818)     | -                       | -        | <b>2,532</b>                             | (818)    |
| Changes in financial assumptions                                              | -                         | -       | <b>(649)</b>                                           | (476)     | -                       | -        | <b>(649)</b>                             | (476)    |
| Changes in demographic assumptions                                            | -                         | -       | <b>49</b>                                              | 179       | -                       | -        | <b>49</b>                                | 179      |
| Return on plan assets excluding interest income                               | <b>(2,483)</b>            | (4,088) | -                                                      | -         | -                       | -        | <b>(2,483)</b>                           | (4,088)  |
| Changes in the effect of asset ceiling                                        | -                         | -       | -                                                      | -         | <b>194</b>              | 1,821    | <b>194</b>                               | 1,821    |
|                                                                               | <b>(2,483)</b>            | (4,088) | <b>1,932</b>                                           | (1,115)   | <b>194</b>              | 1,821    | <b>(357)</b>                             | (3,382)  |
| <b>Others</b>                                                                 |                           |         |                                                        |           |                         |          |                                          |          |
| Contributions                                                                 | <b>2,317</b>              | 3,025   | -                                                      | -         | -                       | -        | <b>2,317</b>                             | 3,025    |
| Benefits paid                                                                 | <b>(3,463)</b>            | (3,879) | <b>3,659</b>                                           | 3,989     | -                       | -        | <b>196</b>                               | 110      |
| Transfers from other plans                                                    | <b>221</b>                | 2       | <b>(239)</b>                                           | (2)       | -                       | -        | <b>(18)</b>                              | -        |
| Transfers to other plans                                                      | <b>(274)</b>              | (2)     | <b>292</b>                                             | 2         | -                       | -        | <b>18</b>                                | -        |
| Other adjustments                                                             | <b>(32)</b>               | (18)    | <b>83</b>                                              | 29        | -                       | -        | <b>51</b>                                | 11       |
|                                                                               | <b>(1,231)</b>            | (872)   | <b>3,795</b>                                           | 4,018     | -                       | -        | <b>2,564</b>                             | 3,146    |
| <b>Balance at end of year</b>                                                 | <b>P29,064</b>            | P30,869 | <b>(P31,617)</b>                                       | (P33,265) | <b>(P1,642)</b>         | (P1,747) | <b>(P4,195)</b>                          | (P4,143) |



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 (benefits) recognized in the consolidated statements of income by the Parent Company amounted to P34, (P13) and (P38) in 2020, 2019 and 2018, respectively (Notes 29 and 31).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P2,009, P1,391 and P2,040 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 P6,734, 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 P6,485, 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:

|                                                          | <b>In Percentages</b> |             |
|----------------------------------------------------------|-----------------------|-------------|
|                                                          | <b>2020</b>           | <b>2019</b> |
| Investments in marketable securities and shares of stock | <b>76.58</b>          | 75.04       |
| Investments in pooled funds:                             |                       |             |
| Fixed income portfolio                                   | <b>7.61</b>           | 8.44        |
| Stock trading portfolio                                  | <b>1.95</b>           | 2.43        |
| Investments in real estate                               | <b>1.56</b>           | 1.48        |
| Others                                                   | <b>12.30</b>          | 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 the Parent Company 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 Top Frontier 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 the Parent Company 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 Top Frontier 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 Top Frontier, Parent Company 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 the Parent Company 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 the 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 the Parent Company 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 the Parent Company 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:

|                      | <b>In Percentages</b> |             |
|----------------------|-----------------------|-------------|
|                      | <b>2020</b>           | <b>2019</b> |
| Discount rate        | <b>0.40 - 7.00</b>    | 4.40 - 7.75 |
| Salary increase rate | <b>2.00 - 8.80</b>    | 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 4.9 to 26.0 years and 3.7 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:

|                      | <b>Defined Benefit Retirement Obligation</b> |                           |                           |                           |
|----------------------|----------------------------------------------|---------------------------|---------------------------|---------------------------|
|                      | <b>2020</b>                                  |                           | <b>2019</b>               |                           |
|                      | <b>1 Percent Increase</b>                    | <b>1 Percent Decrease</b> | <b>1 Percent Increase</b> | <b>1 Percent Decrease</b> |
| Discount rate        | <b>(P1,996)</b>                              | <b>P2,295</b>             | (P1,747)                  | P2,043                    |
| Salary increase rate | <b>2,311</b>                                 | <b>(2,028)</b>            | 2,214                     | (1,939)                   |

The outstanding balances of the Group's receivable from the retirement plans are as follows:

- a. The Parent Company 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 and Distributions

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

#### **2020**

| <b>Class of Shares</b> | <b>Date of Declaration</b> | <b>Date of Record</b> | <b>Date of Payment</b> | <b>Dividend Per Share</b> |
|------------------------|----------------------------|-----------------------|------------------------|---------------------------|
| <b>Common</b>          |                            |                       |                        |                           |
|                        | March 12, 2020             | April 3, 2020         | April 30, 2020         | <b>P0.35</b>              |
|                        | June 30, 2020              | July 15, 2020         | July 31, 2020          | <b>0.35</b>               |
|                        | September 10, 2020         | October 9, 2020       | October 30, 2020       | <b>0.35</b>               |
|                        | December 3, 2020           | January 4, 2021       | January 22, 2021       | <b>0.35</b>               |
| <b>Preferred</b>       |                            |                       |                        |                           |
| SMCP1                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.0565625</b>          |
| SMC2C                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.50</b>               |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.50</b>               |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.50</b>               |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.50</b>               |
| SMC2D                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.11433125</b>         |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.11433125</b>         |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.11433125</b>         |
| SMC2E                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.18603125</b>         |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.18603125</b>         |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.18603125</b>         |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.18603125</b>         |
| SMC2F                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.27635</b>            |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.27635</b>            |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.27635</b>            |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.27635</b>            |
| SMC2G                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.23361875</b>         |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.23361875</b>         |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.23361875</b>         |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.23361875</b>         |
| SMC2H                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.1854125</b>          |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.1854125</b>          |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.1854125</b>          |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.1854125</b>          |
| SMC2I                  | January 23, 2020           | March 20, 2020        | April 3, 2020          | <b>1.18790625</b>         |
|                        | May 28, 2020               | June 19, 2020         | July 3, 2020           | <b>1.18790625</b>         |
|                        | August 6, 2020             | September 21, 2020    | October 5, 2020        | <b>1.18790625</b>         |
|                        | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>1.18790625</b>         |
| SMC2J                  | November 5, 2020           | December 18, 2020     | January 8, 2021        | <b>0.890625</b>           |

## 2019

| Class of Shares    | Date of Declaration | Date of Record     | Date of Payment  | Dividend Per Share |
|--------------------|---------------------|--------------------|------------------|--------------------|
| Common             | March 14, 2019      | April 5, 2019      | May 3, 2019      | P0.35              |
|                    | June 11, 2019       | July 5, 2019       | July 30, 2019    | 0.35               |
|                    | September 12, 2019  | October 11, 2019   | October 31, 2019 | 0.35               |
|                    | December 5, 2019    | January 3, 2020    | January 24, 2020 | 0.35               |
| Preferred<br>SMCP1 | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.0565625          |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.0565625          |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.0565625          |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.0565625          |
| SMC2B              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.4296875          |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.4296875          |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.4296875          |
| SMC2C              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.50               |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.50               |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.50               |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.50               |
| SMC2D              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.11433125         |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.11433125         |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.11433125         |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.11433125         |
| SMC2E              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.18603125         |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.18603125         |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.18603125         |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.18603125         |
| SMC2F              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.27635            |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.27635            |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.27635            |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.27635            |
| SMC2G              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.23361875         |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.23361875         |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.23361875         |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.23361875         |
| SMC2H              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.1854125          |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.1854125          |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.1854125          |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.1854125          |
| SMC2I              | January 24, 2019    | March 22, 2019     | April 5, 2019    | 1.18790625         |
|                    | May 9, 2019         | June 21, 2019      | July 5, 2019     | 1.18790625         |
|                    | August 8, 2019      | September 20, 2019 | October 4, 2019  | 1.18790625         |
|                    | November 7, 2019    | December 20, 2019  | January 10, 2020 | 1.18790625         |

On January 21, 2021, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at March 19, 2021 on the following shares to be paid on April 5, 2021, as follows:

| Class of Shares | Dividends Per Share |
|-----------------|---------------------|
| SMC2C           | P1.50               |
| SMC2E           | 1.18603125          |
| SMC2F           | 1.27635             |
| SMC2G           | 1.23361875          |
| SMC2H           | 1.1854125           |
| SMC2I           | 1.18790625          |
| SMC2J           | 0.890625            |
| SMC2K           | 0.84375             |

On March 11, 2021, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as at April 5, 2021 to be paid on April 30, 2021.

### Distributions

On various dates in 2020, holders of the RPS were paid a total of P238 as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Parent Company.

## **37. Basic and Diluted Earnings Per Share**

Basic and diluted EPS is computed as follows:

|                                                                                                               | <i>Note</i> | <b>2020</b>     | 2019    | 2018    |
|---------------------------------------------------------------------------------------------------------------|-------------|-----------------|---------|---------|
| Net income attributable to equity holders of the Parent Company                                               |             | <b>P2,973</b>   | P21,329 | P23,077 |
| Dividends on preferred shares                                                                                 | 24, 36      | <b>(6,083)</b>  | (7,187) | (7,317) |
| Distributions to capital securities                                                                           | 24, 36      | <b>(857)</b>    | -       | -       |
| Net income (loss) attributable to common shareholders of the Parent Company (a)                               |             | <b>(P3,967)</b> | P14,142 | P15,760 |
| Weighted average number of common shares outstanding (in millions) - basic and diluted (b)                    |             | <b>2,384</b>    | 2,384   | 2,383   |
| Basic and diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b) |             | <b>(P1.66)</b>  | P5.93   | P6.61   |

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):

|                                           | <b>2020</b>     | 2019      | 2018      |
|-------------------------------------------|-----------------|-----------|-----------|
| Trade and other receivables - net         | <b>P8,591</b>   | (P10,539) | (P10,398) |
| Inventories                               | <b>26,503</b>   | (8,949)   | (15,598)  |
| Prepaid expenses and other current assets | <b>(5,261)</b>  | 6,026     | (10,869)  |
| Accounts payable and accrued expenses     | <b>(20,300)</b> | 31,446    | (6,101)   |
| Income and other taxes payable and others | <b>1,212</b>    | (2,886)   | 1,889     |
|                                           | <b>P10,745</b>  | P15,098   | (P41,077) |

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 |
|--------------------------------------------------------|-----------------|-----------------|-------------------|-------------------|
| <b>Balance as at January 1, 2020</b>                   | <b>P169,492</b> | <b>P682,804</b> | <b>P142,248</b>   | <b>P4,116</b>     |
| <b>Changes from Financing Activities</b>               |                 |                 |                   |                   |
| Proceeds from borrowings                               | 813,187         | 160,437         | -                 | -                 |
| Payments of borrowings                                 | (841,775)       | (58,913)        | -                 | -                 |
| Payments of lease liabilities                          | -               | -               | (24,825)          | -                 |
| Dividends and distributions paid                       | -               | -               | -                 | (31,508)          |
| <b>Total Changes from Financing Activities</b>         | <b>(28,588)</b> | <b>101,524</b>  | <b>(24,825)</b>   | <b>(31,508)</b>   |
| <b>The Effect of Changes in Foreign Exchange Rates</b> | <b>(259)</b>    | <b>(18,188)</b> | <b>(2,873)</b>    | <b>(1)</b>        |
| <b>Consolidation of a Subsidiary and Other Changes</b> | <b>-</b>        | <b>769</b>      | <b>2,487</b>      | <b>31,624</b>     |
| <b>Balance as at December 31, 2020</b>                 | <b>P140,645</b> | <b>P766,909</b> | <b>P117,037</b>   | <b>P4,231</b>     |

|                                                 | Loans Payable | Long-term Debt | Lease Liabilities | Dividends Payable |
|-------------------------------------------------|---------------|----------------|-------------------|-------------------|
| Balance as at January 1, 2019, as adjusted      | P184,024      | P617,615       | P164,212          | P4,042            |
| Changes from Financing Activities               |               |                |                   |                   |
| Proceeds from borrowings                        | 1,405,972     | 158,746        | -                 | -                 |
| Payments of borrowings                          | (1,416,504)   | (85,968)       | -                 | -                 |
| Payments of lease liabilities                   | -             | -              | (20,673)          | -                 |
| Dividends and distributions paid                | -             | -              | -                 | (30,652)          |
| Total Changes from Financing Activities         | (10,532)      | 72,778         | (20,673)          | (30,652)          |
| The Effect of Changes in Foreign Exchange Rates | (431)         | (9,417)        | (2,827)           | 2                 |
| Acquisition of Subsidiaries and Other Changes   | (3,569)       | 1,828          | 1,536             | 30,724            |
| Balance as at December 31, 2019                 | P169,492      | P682,804       | P142,248          | P4,116            |

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### 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    |
|---------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|--------------------------------------------------------------------|----------|
| <b>Fixed Rate</b>                                                         |                                                                   |                                                                   |                                                                   |                                                                   |                                                                   |                                                                    |          |
| Philippine peso-denominated Interest rate                                 | P47,064<br>4.0032% - 9.885%                                       | P67,112<br>4.2105% - 9.885%                                       | P56,017<br>3.2837% - 9.885%                                       | P91,422<br>3.2837% - 9.885%                                       | P36,513<br>3.2837% - 9.885%                                       | P136,808<br>3.2837% - 9.885%                                       | P434,936 |
| Foreign currency-denominated (expressed in Philippine peso) Interest rate | 2,581<br>4.7776% - 5.5959%                                        | 1,878<br>4.7776% - 5.5959%                                        | 31,250<br>4.7776% - 5.5959%                                       | 1,154<br>5.5959%                                                  | 1,207<br>5.5959%                                                  | 12,603<br>5.5959%                                                  | 50,673   |
| <b>Floating Rate</b>                                                      |                                                                   |                                                                   |                                                                   |                                                                   |                                                                   |                                                                    |          |
| Philippine peso-denominated Interest rate                                 | 2,572<br>BVAL + margin or BSP overnight rate, whichever is higher | 3,876<br>BVAL + margin or BSP overnight rate, whichever is higher | 2,321<br>BVAL + margin or BSP overnight rate, whichever is higher | 1,442<br>BVAL + margin or BSP overnight rate, whichever is higher | 1,618<br>BVAL + margin or BSP overnight rate, whichever is higher | 7,646<br>BVAL + margin or BSP overnight rate, whichever is higher  | 19,475   |
| Foreign currency-denominated (expressed in Philippine peso) Interest rate | 23,131<br>LIBOR/applicable reference rate + margin                | 27,072<br>LIBOR/applicable reference rate + margin                | 104,333<br>LIBOR/applicable reference rate + margin               | 107,902<br>LIBOR/applicable reference rate + margin               | 3,488<br>LIBOR/applicable reference rate + margin                 | 4,148<br>LIBOR/applicable reference rate + margin                  | 270,074  |
|                                                                           | P75,348                                                           | P99,938                                                           | P193,921                                                          | P201,920                                                          | P42,826                                                           | P161,205                                                           | P775,158 |
| December 31, 2019                                                         | <1 Year                                                           | 1-2 Years                                                         | >2-3 Years                                                        | >3-4 Years                                                        | >4-5 Years                                                        | >5 Years                                                           | Total    |
| <b>Fixed Rate</b>                                                         |                                                                   |                                                                   |                                                                   |                                                                   |                                                                   |                                                                    |          |
| Philippine peso-denominated Interest rate                                 | P24,515<br>4.9925% - 9.885%                                       | P46,288<br>4.0032% - 9.885%                                       | P65,491<br>4.8243% - 9.885%                                       | P53,914<br>4.5219% - 9.885%                                       | P88,870<br>4.63% - 9.885%                                         | P138,315<br>5.1792% - 9.885%                                       | P417,393 |
| Foreign currency-denominated (expressed in Philippine peso) Interest rate | 2,467<br>4.7776% - 5.5959%                                        | 2,638<br>4.7776% - 5.5959%                                        | 1,891<br>4.7776% - 5.5959%                                        | 32,855<br>4.7776% - 5.5959%                                       | 1,117<br>5.5959%                                                  | 13,368<br>5.5959%                                                  | 54,336   |
| <b>Floating Rate</b>                                                      |                                                                   |                                                                   |                                                                   |                                                                   |                                                                   |                                                                    |          |
| Philippine peso-denominated Interest rate                                 | 1,034<br>BVAL + margin or BSP overnight rate, whichever is higher | 1,719<br>BVAL + margin or BSP overnight rate, whichever is higher | 2,714<br>BVAL + margin or BSP overnight rate, whichever is higher | 1,042<br>BVAL + margin or BSP overnight rate, whichever is higher | 162<br>BVAL + margin or BSP overnight rate, whichever is higher   | 12,000<br>BVAL + margin or BSP overnight rate, whichever is higher | 18,671   |
| Foreign currency-denominated (expressed in Philippine peso) Interest rate | 16,394<br>LIBOR/applicable reference rate + margin                | 37,404<br>LIBOR/applicable reference rate + margin                | 26,375<br>LIBOR/applicable reference rate + margin                | 100,241<br>LIBOR/applicable reference rate + margin               | 13,510<br>LIBOR/applicable reference rate + margin                | 5,825<br>LIBOR/applicable reference rate + margin                  | 199,749  |
|                                                                           | P44,410                                                           | P88,049                                                           | P96,471                                                           | P188,052                                                          | P103,659                                                          | P169,508                                                           | P690,149 |

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:

|                                                       | <b>December 31, 2020</b> |                            | December 31, 2019    |                            |
|-------------------------------------------------------|--------------------------|----------------------------|----------------------|----------------------------|
|                                                       | <b>US<br/>Dollar</b>     | <b>Peso<br/>Equivalent</b> | <b>US<br/>Dollar</b> | <b>Peso<br/>Equivalent</b> |
| <b>Assets</b>                                         |                          |                            |                      |                            |
| Cash and cash equivalents                             | <b>US\$5,053</b>         | <b>P242,683</b>            | US\$3,471            | P175,824                   |
| Trade and other receivables                           | <b>743</b>               | <b>35,641</b>              | 862                  | 43,637                     |
| Prepaid expenses and other current assets             | <b>15</b>                | <b>749</b>                 | 11                   | 545                        |
| Noncurrent receivables                                | <b>4</b>                 | <b>201</b>                 | 20                   | 1,006                      |
|                                                       | <b>5,815</b>             | <b>279,274</b>             | 4,364                | 221,012                    |
| <b>Liabilities</b>                                    |                          |                            |                      |                            |
| Loans payable                                         | <b>166</b>               | <b>8,011</b>               | 90                   | 4,503                      |
| Accounts payable and accrued expenses                 | <b>1,708</b>             | <b>82,110</b>              | 1,592                | 80,579                     |
| Long-term debt (including current maturities)         | <b>6,679</b>             | <b>320,747</b>             | 5,018                | 254,085                    |
| Lease liabilities (including current portion)         | <b>1,131</b>             | <b>54,306</b>              | 1,368                | 69,286                     |
| Other noncurrent liabilities                          | <b>212</b>               | <b>10,216</b>              | 177                  | 8,974                      |
|                                                       | <b>9,896</b>             | <b>475,390</b>             | 8,245                | 417,427                    |
| Net foreign currency-denominated monetary liabilities | <b>(US\$4,081)</b>       | <b>(P196,116)</b>          | (US\$3,881)          | (P196,415)                 |

The Group reported net gains (losses) on foreign exchange amounting to P5,444, P5,422 and (P9,714) 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:

|                          | <b>US Dollar<br/>to Philippine Peso</b> |
|--------------------------|-----------------------------------------|
| <b>December 31, 2020</b> | <b>48.02</b>                            |
| 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<br>US Dollar Exchange Rate |                     | P1 Increase in the<br>US Dollar Exchange Rate |                     |
|--------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                  | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity |
| Cash and cash equivalents                        | (P4,619)                                      | (P3,666)            | P4,619                                        | P3,666              |
| Trade and other receivables                      | (185)                                         | (457)               | 185                                           | 457                 |
| Prepaid expenses and<br>other current assets     | (5)                                           | (14)                | 5                                             | 14                  |
| Noncurrent receivables                           | -                                             | (4)                 | -                                             | 4                   |
|                                                  | (4,809)                                       | (4,141)             | 4,809                                         | 4,141               |
| Loans payable                                    | 20                                            | 160                 | (20)                                          | (160)               |
| Accounts payable and<br>accrued expenses         | 757                                           | 1,308               | (757)                                         | (1,308)             |
| Long-term debt (including<br>current maturities) | 5,902                                         | 4,908               | (5,902)                                       | (4,908)             |
| Lease liabilities (including<br>current portion) | 1,095                                         | 804                 | (1,095)                                       | (804)               |
| Other noncurrent liabilities                     | 188                                           | 184                 | (188)                                         | (184)               |
|                                                  | 7,962                                         | 7,364               | (7,962)                                       | (7,364)             |
|                                                  | P3,153                                        | P3,223              | (P3,153)                                      | (P3,223)            |

| December 31, 2019                                | P1 Decrease in the<br>US Dollar Exchange Rate |                     | P1 Increase in the<br>US Dollar Exchange Rate |                     |
|--------------------------------------------------|-----------------------------------------------|---------------------|-----------------------------------------------|---------------------|
|                                                  | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity | Effect on<br>Income before<br>Income Tax      | Effect on<br>Equity |
| Cash and cash equivalents                        | (P3,041)                                      | (P2,554)            | P3,041                                        | P2,554              |
| Trade and other receivables                      | (304)                                         | (545)               | 304                                           | 545                 |
| Prepaid expenses and<br>other current assets     | (8)                                           | (8)                 | 8                                             | 8                   |
| Noncurrent receivables                           | (18)                                          | (14)                | 18                                            | 14                  |
|                                                  | (3,371)                                       | (3,121)             | 3,371                                         | 3,121               |
| Loans payable                                    | -                                             | 90                  | -                                             | (90)                |
| Accounts payable and<br>accrued expenses         | 1,010                                         | 1,288               | (1,010)                                       | (1,288)             |
| Long-term debt (including<br>current maturities) | 4,220                                         | 3,752               | (4,220)                                       | (3,752)             |
| Lease liabilities (including<br>current portion) | 1,345                                         | 965                 | (1,345)                                       | (965)               |
| Other noncurrent liabilities                     | 151                                           | 160                 | (151)                                         | (160)               |
|                                                  | 6,726                                         | 6,255               | (6,726)                                       | (6,255)             |
|                                                  | P3,355                                        | P3,134              | (P3,355)                                      | (P3,134)            |

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.

The Parent Company 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 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------------|----------------|--------------------|---------------------|--------------|
| <b>Financial Assets</b>                                                                                                                                                           |                 |                       |                |                    |                     |              |
| Cash and cash equivalents                                                                                                                                                         | P347,209        | P347,209              | P347,209       | P -                | P -                 | P -          |
| Trade and other receivables - net                                                                                                                                                 | 124,369         | 124,369               | 124,369        | -                  | -                   | -            |
| 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)                                  | 41,696          | 41,699                | 82             | 46                 | 1                   | 41,570       |
| 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)                                                                                | 28,095          | 28,119                | -              | 333                | 24,237              | 3,549        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)                                                         | 7,890           | 7,890                 | 3,111          | 3,487              | -                   | 1,292        |
| <b>Financial Liabilities</b>                                                                                                                                                      |                 |                       |                |                    |                     |              |
| Loans payable                                                                                                                                                                     | 140,645         | 141,245               | 141,245        | -                  | -                   | -            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)        | 149,448         | 149,448               | 149,448        | -                  | -                   | -            |
| 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)                                                                                                                                     | 766,909         | 909,772               | 109,404        | 129,043            | 489,632             | 181,693      |
| Lease liabilities (including current portion)                                                                                                                                     | 117,037         | 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) | 12,884          | 12,890                | -              | 1,368              | 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                                                                                                                                                    | P286,457        | P286,457              | P286,457       | P -                | P -                 | P -          |
| Trade and other receivables - net                                                                                                                                            | 136,488         | 136,488               | 136,488        | -                  | -                   | -            |
| 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)                             | 41,907          | 41,915                | 44             | 82                 | 46                  | 41,743       |
| 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)                                                                           | 28,775          | 29,436                | -              | 379                | 25,532              | 3,525        |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)                                                    | 12,423          | 12,423                | 6,256          | 5,036              | -                   | 1,131        |
| Financial Liabilities                                                                                                                                                        |                 |                       |                |                    |                     |              |
| Loans payable                                                                                                                                                                | 169,492         | 170,169               | 170,169        | -                  | -                   | -            |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)   | 173,239         | 173,239               | 173,239        | -                  | -                   | -            |
| Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)                                                  | 3,122           | 3,122                 | 1,678          | 248                | 1,196               | -            |
| Long-term debt (including current maturities)                                                                                                                                | 682,804         | 852,506               | 80,764         | 120,716            | 451,819             | 199,207      |
| Lease liabilities (including current portion)                                                                                                                                | 142,248         | 171,108               | 35,131         | 31,509             | 68,450              | 36,018       |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities) | 11,297          | 11,308                | -              | 971                | 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.

|                                                    | <b>Note</b> | <b>2020</b>     | <b>2019</b> |
|----------------------------------------------------|-------------|-----------------|-------------|
| Cash and cash equivalents (excluding cash on hand) | 7           | <b>P345,425</b> | P283,507    |
| Trade and other receivables - net                  | 8           | <b>124,369</b>  | 136,488     |
| Derivative assets                                  | 10, 18      | <b>635</b>      | 1,158       |
| Investment in debt instruments at FVOCI            | 10, 12      | <b>126</b>      | 163         |
| Investment in debt instruments at amortized cost   | 10, 12      | <b>255</b>      | 257         |
| Noncurrent receivables and deposits - net          | 18          | <b>28,095</b>   | 28,775      |
| Restricted cash                                    | 10, 18      | <b>7,890</b>    | 12,423      |
|                                                    |             | <b>P506,795</b> | P462,771    |

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.

| <b>2020</b>                                        |                                           |                                         |                                     |                                 |                                  |                 |
|----------------------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------------------|---------------------------------|----------------------------------|-----------------|
|                                                    | <b>Financial Assets at Amortized Cost</b> |                                         |                                     | <b>Financial Assets at FVPL</b> | <b>Financial Assets at FVOCI</b> | <b>Total</b>    |
|                                                    | <b>12-Month ECL</b>                       | <b>Lifetime ECL not Credit Impaired</b> | <b>Lifetime ECL Credit Impaired</b> |                                 |                                  |                 |
| Cash and cash equivalents (excluding cash on hand) | <b>P345,425</b>                           | P -                                     | P -                                 | P -                             | P -                              | <b>P345,425</b> |
| Trade and other receivables                        | <b>124,369</b>                            | -                                       | 13,741                              | -                               | -                                | <b>138,110</b>  |
| Derivative assets                                  | -                                         | -                                       | -                                   | 604                             | 31                               | <b>635</b>      |
| Investment in debt instruments at FVOCI            | -                                         | -                                       | -                                   | -                               | 126                              | <b>126</b>      |
| Investment in debt instruments at amortized cost   | <b>105</b>                                | 150                                     | -                                   | -                               | -                                | <b>255</b>      |
| Noncurrent receivables and deposits                | -                                         | 28,095                                  | 606                                 | -                               | -                                | <b>28,701</b>   |
| Restricted cash                                    | <b>3,111</b>                              | 4,779                                   | -                                   | -                               | -                                | <b>7,890</b>    |

| <b>2019</b>                                        |                                           |                                         |                                     |                                 |                                  |              |
|----------------------------------------------------|-------------------------------------------|-----------------------------------------|-------------------------------------|---------------------------------|----------------------------------|--------------|
|                                                    | <b>Financial Assets at Amortized Cost</b> |                                         |                                     | <b>Financial Assets at FVPL</b> | <b>Financial Assets at FVOCI</b> | <b>Total</b> |
|                                                    | <b>12-Month ECL</b>                       | <b>Lifetime ECL not Credit Impaired</b> | <b>Lifetime ECL Credit Impaired</b> |                                 |                                  |              |
| Cash and cash equivalents (excluding cash on hand) | P283,507                                  | P -                                     | P -                                 | P -                             | P -                              | P283,507     |
| Trade and other receivables                        | 136,488                                   | -                                       | 12,688                              | -                               | -                                | 149,176      |
| 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                | -                                         | 28,775                                  | 724                                 | -                               | -                                | 29,499       |
| Restricted cash                                    | 6,256                                     | 6,167                                   | -                                   | -                               | -                                | 12,423       |

The aging of receivables is as follows:

| <b>December 31, 2020</b> | <b>Trade</b>   | <b>Non-trade</b> | <b>Amounts<br/>Owed by<br/>Related<br/>Parties</b> | <b>Total</b>    |
|--------------------------|----------------|------------------|----------------------------------------------------|-----------------|
| Current                  | <b>P45,989</b> | <b>P23,486</b>   | <b>P13,116</b>                                     | <b>P82,591</b>  |
| Past due:                |                |                  |                                                    |                 |
| 1 - 30 days              | <b>8,894</b>   | <b>3,608</b>     | <b>276</b>                                         | <b>12,778</b>   |
| 31 - 60 days             | <b>2,736</b>   | <b>316</b>       | <b>60</b>                                          | <b>3,112</b>    |
| 61 - 90 days             | <b>1,363</b>   | <b>335</b>       | <b>11</b>                                          | <b>1,709</b>    |
| Over 90 days             | <b>15,680</b>  | <b>21,226</b>    | <b>1,014</b>                                       | <b>37,920</b>   |
|                          | <b>P74,662</b> | <b>P48,971</b>   | <b>P14,477</b>                                     | <b>P138,110</b> |

| <b>December 31, 2019</b> | <b>Trade</b>   | <b>Non-trade</b> | <b>Amounts<br/>Owed by<br/>Related<br/>Parties</b> | <b>Total</b>    |
|--------------------------|----------------|------------------|----------------------------------------------------|-----------------|
| Current                  | <b>P63,321</b> | <b>P23,884</b>   | <b>P13,826</b>                                     | <b>P101,031</b> |
| Past due:                |                |                  |                                                    |                 |
| 1 - 30 days              | <b>8,510</b>   | <b>1,972</b>     | <b>390</b>                                         | <b>10,872</b>   |
| 31 - 60 days             | <b>2,415</b>   | <b>448</b>       | <b>14</b>                                          | <b>2,877</b>    |
| 61 - 90 days             | <b>853</b>     | <b>1,329</b>     | <b>23</b>                                          | <b>2,205</b>    |
| Over 90 days             | <b>11,695</b>  | <b>19,572</b>    | <b>924</b>                                         | <b>32,191</b>   |
|                          | <b>P86,794</b> | <b>P47,205</b>   | <b>P15,177</b>                                     | <b>P149,176</b> |

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 |
| <b>Financial Assets</b>                                                                                                                                                           |                   |            |                   |            |
| Cash and cash equivalents                                                                                                                                                         | P347,209          | P347,209   | P286,457          | P286,457   |
| Trade and other receivables - net                                                                                                                                                 | 124,369           | 124,369    | 136,488           | 136,488    |
| 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)                                  | 41,696            | 41,696     | 41,907            | 41,907     |
| 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)                                                                                | 28,095            | 28,095     | 28,775            | 28,775     |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)                                                         | 7,890             | 7,890      | 12,423            | 12,423     |
| <b>Financial Liabilities</b>                                                                                                                                                      |                   |            |                   |            |
| Loans payable                                                                                                                                                                     | 140,645           | 140,645    | 169,492           | 169,492    |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)        | 149,448           | 149,448    | 173,239           | 173,239    |
| 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)                                                                                                                                     | 766,909           | 843,155    | 682,804           | 735,657    |
| Lease liabilities (including current portion)                                                                                                                                     | 117,037           | 117,037    | 142,248           | 142,248    |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | 12,884            | 12,884     | 11,297            | 11,297     |

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 -<br>2 Years | > 2 Years -<br>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 -<br>2 Years | > 2 Years -<br>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:

| 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:<br>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:<br>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:<br>Interest rate collar                      | 90              | -               | 28          | Accounts payable and accrued expenses and Other noncurrent liabilities                                                                           | (28)                                                                                         | (8)                                                      | -                                                                                | 9                                                                                        | Interest expense and other financing charges                                       |
|                                                                  |                 |                 |             |                                                                                                                                                  |                                                                                              |                                                          |                                                                                  |                                                                                          |                                                                                    |
| December 31, 2019                                                | 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:<br>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:<br>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:<br>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 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  |
| <b>Financial Assets</b>      |                   |         |        |                   |         |        |
| Derivative assets            | P -               | P635    | P635   | P -               | P1,158  | P1,158 |
| Financial assets at FVPL     | -                 | 275     | 275    | -                 | 284     | 284    |
| Financial assets at FVOCI    | 784               | 40,912  | 41,696 | 972               | 40,935  | 41,907 |
| <b>Financial Liabilities</b> |                   |         |        |                   |         |        |
| 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.

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#### **41. Events After the Reporting Date**

##### Parent Company

##### *a. Investment in GSML*

On December 1, 2020, the BOD of GSML approved the redemption of the 32,786,885 outstanding preferred shares held by SMC equivalent to 10.27% equity interest in GSML. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. On January 4, 2021, GSML 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 the Parent Company 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 the Parent Company, 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 the Parent Company 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 the Parent Company 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 the Parent Company and upon the approval of the application for lifting of trading suspension by the Parent Company 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).

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**42. Registration with the Board of Investments (BOI) and Others**

**a. SMC Global**

- 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 *Advancion* 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 *Advancion* 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:

- *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:

| <b>Registration<br/>Renewal Date</b> | <b>Certificate of<br/>Registration No.</b> | <b>Annual Period<br/>Covered</b> |
|--------------------------------------|--------------------------------------------|----------------------------------|
| 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.

- 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.

- *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.
- *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:
- they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
  - the equipment is reasonably needed and will be exclusively used in the registered activity; and
  - 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:
  - at least 70% of production is imported;
  - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
  - 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*
  - *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.
  - *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*
  - *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.
  - *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.
  - *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*

- *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.
  - *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.
  - *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.
  - *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.
  - *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.

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## 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 GSML received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSML a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSML 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 GSML 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 GSML.

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 GSML filed their respective comments on the appeal.

On September 14, 2020, the Parent Company 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.

#### ▪ Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

In 2004, the Parent Company 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 the Parent Company but nonetheless made the corresponding payments. Consequently, the Parent Company 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, the Parent Company 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 the Parent Company, 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 the Parent Company’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 the Parent Company 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 the Parent Company. As at December 31, 2020, the TCC was not yet applied in any of the Parent Company’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 the Parent Company 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 the Parent Company. P44 out of P105 was partially applied to the Parent Company'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 Dstraint 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 (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL'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 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. Nos. 210224 and 219632: These cases pertain to GSMI's Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduay 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 "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comment on TDI's Petition for Review on Certiorari.

On December 17, 2018, the 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, the Parent Company, 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, the Parent Company disclosed to the PSE, that the agreement to acquire the 85.73% shares of HPI, between and among FSCII, the Parent Company 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 the Parent Company on September 23, 2019. On May 13, 2020, Top Frontier 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, 15% 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 GSML 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.*

**San Miguel Corporation****Proceeds from Issuance of Series "2", in Subseries "J" Preferred Shares****December 31, 2020****(Amounts in Millions)****i) Gross and Net Proceeds as Disclosed in the Final Prospectus**

|                                                                                 |   |    |               |
|---------------------------------------------------------------------------------|---|----|---------------|
| Gross Proceeds                                                                  |   | P  | 20,000        |
| Estimated Fees, Commissions and Expenses Relating to the Issue:                 |   |    |               |
| Underwriting fees for the Series 2-J Preferred Shares being sold by the Company | P | 65 |               |
| Taxes to be paid by the Company                                                 |   | 13 |               |
| Philippine SEC filing and legal research fee                                    |   | 6  |               |
| PSE filing fee (inclusive of VAT)                                               |   | 22 |               |
| Estimated legal and other professional fees                                     |   | 5  |               |
| Estimated other expenses                                                        |   | 3  | 114           |
| Net Proceeds                                                                    |   | P  | <u>19,886</u> |

**ii) Actual Gross and Net Proceeds**

|                                              |   |    |               |
|----------------------------------------------|---|----|---------------|
| Gross Proceeds                               |   | P  | 20,000        |
| Underwriting fees                            | P | 63 |               |
| Taxes                                        |   | 10 |               |
| Philippine SEC filing and legal research fee |   | 6  |               |
| PSE filing fee (inclusive of VAT)            |   | 22 |               |
| Estimated legal and other professional fees  |   | 4  |               |
| Other expenses                               |   | 3  | 108           |
| Net Proceeds/Balance of the Proceeds         |   | P  | <u>19,892</u> |

**iii) Each Expenditure Item Where the Proceeds were Used**

Additional investment in San Miguel Holdings Corp. for the following infrastructure projects of its subsidiaries:

|                                                |   |            |
|------------------------------------------------|---|------------|
| MRT 7                                          | P | 244        |
| Manila International Airport                   |   | 76         |
| Total Expenditure Where the Proceeds Were Used | P | <u>320</u> |

**iv) Balance of the Proceeds as of End of Reporting Period****P** 19,572

**San Miguel Corporation****Proceeds from Issuance of Series "2", in Subseries "K" Preferred Shares****December 31, 2020****(Amounts in Millions)****i) Gross and Net Proceeds as Disclosed in the Final Prospectus <sup>a</sup>**

|                                                                 |          |          |               |
|-----------------------------------------------------------------|----------|----------|---------------|
| Gross Proceeds                                                  |          | <b>P</b> | 20,000        |
| Estimated Fees, Commissions and Expenses Relating to the Issue: |          |          |               |
| Underwriting fees for the Series 2-K Preferred Shares           |          |          |               |
| being sold by the Company                                       | <b>P</b> | 118      |               |
| Taxes to be paid by the Company                                 |          | 13       |               |
| Philippine SEC filing and legal research fee                    |          | 5        |               |
| PSE filing fee (inclusive of VAT)                               |          | 22       |               |
| Estimated legal and other professional fees                     |          | 5        |               |
| Estimated other expenses                                        |          | 4        | 167           |
| Net Proceeds                                                    |          | <b>P</b> | <u>19,833</u> |

**ii) Actual Gross and Net Proceeds <sup>b</sup>**

|                                                           |          |          |               |
|-----------------------------------------------------------|----------|----------|---------------|
| Gross Proceeds                                            |          | <b>P</b> | 13,793        |
| Underwriting fees                                         | <b>P</b> | 80       |               |
| Taxes                                                     |          | 7        |               |
| Philippine SEC filing and legal research fee              |          | 5        |               |
| PSE filing fee (inclusive of VAT)                         |          | 22       |               |
| Estimated legal and other professional fees               |          | 3        | 117           |
| Net Proceeds/Balance of the Proceeds                      |          |          | <u>117</u>    |
| and Balance of the Proceeds as of End of Reporting Period |          | <b>P</b> | <u>13,676</u> |

The Gross and Net Proceeds as disclosed in Final Prospectus is based on (a) 133,333,400 Series "2" Preferred Shares with an (b) oversubscription option of 133,333,267 Series "2" Preferred Shares at P75.00 per share amounting to P20,000 million.

<sup>a</sup>

The Actual Gross and Net Proceeds is based on (a) 133,333,400 Series "2" Preferred Shares with an (b) oversubscription option of 50,571,500 Series "2" Preferred Shares at P75.00 per share amounting to P13,793 million.

<sup>b</sup>

## **APPENDIX “B”**

### **LIST OF PROPERTIES**

| Company Name / Subsidiary         |                                          | Address                                                                                     | Rented / Owned                               | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                           |
|-----------------------------------|------------------------------------------|---------------------------------------------------------------------------------------------|----------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------------------------------------------------|
| <b>FOOD AND BEVERAGE BUSINESS</b> |                                          |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
| <b>1</b>                          | <b>SAN MIGUEL BREWERY, INC.</b>          |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
|                                   | <b>A. DOMESTIC</b>                       |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
|                                   | <b>Head Office</b>                       |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
|                                   | Office Space                             | 40 San Miguel Ave., Mandaluyong City                                                        | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | <b>Production Facilities</b>             |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
|                                   | Polo Brewery                             | Marulas, Valenzuela City, Metro Manila                                                      | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | San Fernando Brewery                     | Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga                                   | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Sta. Rosa Bottling Plant                 | Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna                     | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Bacolod Brewery                          | Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental                                     | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Mandaue Brewery                          | National Highway, Brgy. Tipolo, Mandaue City                                                | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Davao Brewery                            | Brgy. Darong, Sta. Cruz, Davao del Sur                                                      | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Cagayan de Oro Brewery                   | Sta. Ana, Tagoloan, Misamis Oriental                                                        | Building & Facilities-<br>Owned; Land-Rented | Good      | 1,230,428.97                                              | March 25, 2028              | The lease may be renewed for a period of 25 years upon such terms and conditions mutually agreed upon by the parties |
|                                   | <b>Sales/Area Offices and Warehouses</b> |                                                                                             |                                              |           |                                                           |                             |                                                                                                                      |
|                                   | San Fernando Region Office               | SMC Complex, Brgy. Quebiawan, McArthur Highway, San Fernando, Pampanga                      | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Carmen Sales Office                      | Carmen East, Rosales, Pangasinan                                                            | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Dagupan Sales Office                     | Caranglaan Dist., Dagupan City, Pangasinan                                                  | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Baguio Sales Office                      | Naguilian Road, San Carlos Heights, Brgy. Irisan, Baguio City, Benguet                      | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Carlattan Sales Office                   | Pennsylvania Ave., Brgy. Madayegdeg, San Fernando, La Union                                 | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Cauayan Sales Office                     | Brgy. San. Fermin, Cauayan, Isabela                                                         | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Santiago Sales Office                    | National Road, Brgy. Mabini, Santiago City, Isabela                                         | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Region Office (Angeles Sales Office)     | San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga                | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Region Office                            | Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte                                          | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Central North Luzon Area                 | Brgy. Tablac, Candon City, Ilocus Sur                                                       | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Central North Luzon Area                 | Maharlika Highway, Brgy. Sta Maria, Lallo, Cagayan                                          | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Guiguinto Sales Office                   | Cagayan Valley Rd., Brgy. Sta. Cruz, Guiguinto, Bulacan                                     | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | San Isidro Sales Office                  | Gapan-Olongapo Rd., Poblacion San Isidro, Nueva Ecija                                       | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Caloocan Sales Office                    | A. Cruz St., Brgy. 96, Caloocan City                                                        | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Tondo Sales Office                       | Honorio Lopez Blvd., Guidote St., Tondo, Manila                                             | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Cubao Sales Office                       | Brgy. Mangga, Cubao, Quezon City                                                            | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Portion of Tondo Sales Office            | portion of Tondo S.O. - Buendia cor. Guidote St., Tondo Manila                              | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Novaliches Sales Office                  | Novaliches S.O. - Quirino Highway, Brgy. Kaligayahan, Novaliches, Quezon City, Metro Manila | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Pureza Sales Office                      | Brgy. 425, Zone 43, Sampaloc District, Manila                                               | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Sta. Ana Sales Office                    | M. Carreon St., Brgy. 864, Sta. Ana District, Manila                                        | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Taytay Sales Office                      | Manila East Rd., Brgy. Dolores, Taytay, Rizal                                               | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Sucat Sales Office                       | Dr. A. Santos Ave., Bgy. San Dionisio, Parañaque City                                       | Owned                                        | Good      |                                                           |                             |                                                                                                                      |
|                                   | Parañaque Sales Office                   | No. 100 Bernabe Subd., Brgy. San Dionisio, Sucat, Parañaque City, Metro Manila              | Owned                                        | Good      |                                                           |                             |                                                                                                                      |

| Company Name / Subsidiary |                                              | Address                                                                                                             | Rented / Owned                        | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                       |
|---------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|--------------------------------------------------|
|                           | Canlubang Sales Office                       | Silangan Exit, Canlubang, Calamba City, Laguna                                                                      | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Lucena Sales Office                          | Maharlika Highway, Brgy. Isabang, Lucena City, Quezon                                                               | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Gumaca Sales Office                          | Maharlika Highway, Brgy. Villa Bota, Gumaca, Quezon                                                                 | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Naga Sales Office                            | Maharlika Highway, Brgy. Concepcion Grande Pequeña, Naga City, Camarines Sur                                        | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Puerto Princesa Sales Office                 | Brgy. Mandaragat, Puerto Princesa City, Palawan                                                                     | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | San Jose Sales Office                        | Aurora Quezon and Calderron St., Brgy. Labangan, San Jose, Occidental Mindoro                                       | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Batangas Sales Office                        | National Rd., Brgy. Balagtas, Batangas City, Batangas                                                               | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | South Luzon Area                             | Ayala Highway, Brgy. Balintawak, Lipa City, Batangas                                                                | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Bacolod Region Office (Bacolod Sales Office) | Brgy. Granada, Sta. Fe, Bacolod City, Negros Occidental                                                             | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Iloilo Sales Office                          | Muelle Loney St., Brgy. Legaspi, Iloilo City                                                                        | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Himamaylan Sales Office                      | National Hi-way, Brgy. 4, Himamaylan City, Negros Occidental                                                        | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Negros                                       | Flores St., Brgy. Sum-Ag, Bacolod City, Negros Occidental                                                           | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Numancia Sales Office                        | Brgy., Camansi Norte, Numancia, Aklan                                                                               | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Roxas Sales Office                           | Brgy. Libas, Roxas City, Capiz                                                                                      | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | IGBR Region Office                           | Meliza St. Brgy. Zamora, Iloilo City                                                                                | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | CV North & South Region Offices              | National Highway, Brgy. Tipolo, Mandaue City                                                                        | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Region Office                                | Brgy. Darong Sta. Cruz, Davao del Sur                                                                               | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Region Office (Davao SO)                     | National Highway, Bgy. Ulas, Talomo, Davao City                                                                     | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Rented Out/Region Office                     | National Highway, Brgy. Magugpo, Tagum City                                                                         | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Mindanao                                     | Sergio Osmeña, Brgy. Poblacion, Koronadal City                                                                      | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Rented Out/Region Office                     | National Highway, Brgy. Lagao, Gen. Santos City                                                                     | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Opol Sales Office                            | National Highway, Brgy. Luyong Bonbon, Opol, Misamis Oriental                                                       | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Zamboanga Sales Office                       | R.T. Lim Blvd., Baliwasan, Zamboanga City                                                                           | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Mindanao                                     | Brgy. Bongtod, Tandag City, Surigao del Sur                                                                         | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Mindanao                                     | J.P. Rizal Ave., Poblacion, Digos City                                                                              | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Butuan Sales Office                          | R. Calo St., Fort Poyohan, Butuan City                                                                              | Owned                                 | Good      |                                                           |                             |                                                  |
|                           | Cabanatuan Sales Office                      | Cabanatuan S.O. - No. 140 Duran Compound, Maharlika Highway, Brgy. Bitas, Cabanatuan City                           | Land & Building-Rented                | Good      | 82,104.58                                                 | January 31, 2022            | Renewable upon mutual agreement of both parties. |
|                           | Region Office                                | Region Office - #578 P. Burgos St. Cabanatuan City, Nueva Ecija                                                     | Land & Building-Rented                | Good      | 35,240.63                                                 | May 31, 2021                | Renewable upon mutual agreement of both parties  |
|                           | Warehouse                                    | Barangay Sta. Rita, Guiguinto, Bulacan                                                                              | Warehouse Parking space - rented      | Good      | 349,025.00                                                | May 31, 2024                | Renewable upon mutual agreement of both parties  |
|                           | Valenzuela Sales Office                      | Valenzuela S.O. - Bldg. 23 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila      | Land, Warehouse and Open Space-Rented | Good      | 305,870.53                                                | April 30, 2021              | Renewable upon mutual agreement of both parties  |
|                           | Valenzuela Sales Office                      | Valenzuela S.O. - Bldg. 24 & 25 Plastic City Cpd., #8 T. Santiago St., Brgy. Canumay, Valenzuela City, Metro Manila | Land, Warehouse and Open Space-Rented | Good      | 185,678.57                                                | April 30, 2021              | Renewable upon mutual agreement of both parties  |
|                           | Warehouse (Balintawak Sales Office)          | Kaingin Rd., Brgy. Apolonio Samson, Balintawak, Quezon City                                                         | Land, Warehouse and Open Space-Rented | Good      | 780,995.00                                                | August 31, 2022             | Renewable upon mutual agreement of both parties  |

| Company Name / Subsidiary |                                                                                       | Address                                                                     | Rented / Owned                               | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                  |
|---------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Warehouse                                                                             | 685 Tandang Sora Ave., Quezon City                                          | Warehouse-Rented                             | Good      | 118,571.43                                                | May 30, 2021                | The Contract is subject to renewal or extension under such terms and conditions as may mutually agreed upon between the parties in writing. |
|                           | Pasig Sales Office                                                                    | Pasig S.O. - Mercedes Ave., Pasig City, Metro Manila                        | Land & Warehouse-Rented                      | Good      | 1,082,812.50                                              | December 31, 2021           | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Masbate Sales Office                                                                  | Bgy. Pinamarbuan, Mobo, Masbate                                             | Land, Warehouse and Open Space-Rented        | Good      | 185,850.00                                                | March 31, 2021              | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Legazpi Sales Office                                                                  | Legazpi S.O. - Tahao Street, Bgy. Gogon, Legaspi City, Bicol                | Warehouse, Office & Open Space-Rented        | Good      | 304,920.00                                                | December 31, 2021           | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Dasmariñas Sales Office                                                               | Dasmariñas S.O. - Brgy. Langkaan II, Governors Drive, Dasmariñas, Cavite    | Warehouse-Rented                             | Good      | 455,625.00                                                | January 31, 2022            | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Bacoor Sales Office                                                                   | Bacoor S.O. - Tirona Highway, Habay 1, Bacoor, Cavite                       | Warehouse-Rented                             | Good      | 346,987.50                                                | March 31, 2021              | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Bulan Sales Office                                                                    | Bulan S.O. - T. de Castro St., Zone 8, Bulan, Sorsogon                      | Warehouse-Rented                             | Good      | 128,100.00                                                | October 31, 2021            | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Pila Sales Office                                                                     | Pila S.O. - Brgy. Bulilan Norte, National Highway, Pila, Laguna             | Warehouse-Rented                             | Good      | 267,857.14                                                | September 30, 2021          | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Dumaguete Region Office                                                               | Dumaguete Region Office - Brgy. Pulang Tubig, Dumaguete City                | Land & Land Improvement-Rented               | Good      | 74,529.00                                                 | December 31, 2024           | Renewable at the option of the lessee                                                                                                       |
|                           | Dumaguete Sales Office                                                                | Dumaguete S.O. - Brgy. Pulang Tubig, Dumaguete City                         | Warehouse-Rented                             | Good      | 110,250.00                                                | September 30, 2023          | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Iloilo Sales Office                                                                   | Brgy. Pagduque, Dumanas, Iloilo                                             | Warehouse-Rented                             | Good      | 325,968.00                                                | June 15, 2024               | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Catbalogan Sales Office                                                               | Samar Region Office - San Bartolome St., Catbalogan, Samar                  | Warehouse, Office Space & Open Space-Rented  | Good      | 187,000.00                                                | November 30, 2031           | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Tagbilaran Sales Office                                                               | Tagbilaran S.O. - Tomas Cloma Ave., Taloto District, Tagbilaran City, Bohol | Warehouse-Rented                             | Good      | 75,000.00                                                 | October 31, 2022            | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Tacloban Sales Office/Region Office                                                   | Fatima Village, Tacloban City, Leyte                                        | Portion of Land-Rented/Portion of Land-Owned | Good      | 243,705.27                                                | May 31, 2024                | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Caraga Region Office                                                                  | 715 Molave St., Guingona Subd. Butuan City, Agusan del Norte                | Land & Land Improvement-Rented               | Good      | 115,473.09                                                | August 31, 2025             | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Region Office                                                                         | Brgy. Aguada, Ozamiz City                                                   | Building-Rented                              | Good      | 99,825.00                                                 | July 31, 2022               | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Iligan Sales Office                                                                   | Iligan S.O. - Pandan, Sta. Filomena, Iligan City                            | Warehouse-Rented                             | Good      | 62,500.00                                                 | September 30, 2022          | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Liloy Sales Office                                                                    | Liloy S.O. - Baybay, Liloy, Zamboanga del Norte                             | Warehouse-Rented                             | Good      | 44,642.86                                                 | September 30, 2022          | Renewable upon mutual agreement of both parties                                                                                             |
|                           | Dipolog Sales Office                                                                  | Dipolog S.O. - Sta. Filomena, Dipolog City                                  | Warehouse-Rented                             | Good      | 50,892.86                                                 | September 30, 2022          | Renewable upon mutual agreement of both parties                                                                                             |
|                           | <b>Terminal</b>                                                                       |                                                                             |                                              |           |                                                           |                             |                                                                                                                                             |
|                           | Bataan Malt Terminal (land, building, machineries & equipment, furnitures & fixtures) | Mariveles, Bataan                                                           | Building & Facilities-Owned;<br>Land-Rented  | Good      | 661,029.65                                                | April 30, 2025              | Renewable upon mutual agreement of both parties                                                                                             |



| Company Name / Subsidiary |                                            | Address                                                                                                 | Rented / Owned              | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options |
|---------------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------|
|                           | <b>Investment Properties</b>               | Brgy. Estefania, Bacolod City (9 lots)                                                                  | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | No. 31 Rosario St., Brgy. Granada, Bacolod City                                                         | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Brgy. Penabatan, Pulilan, Bulacan                                                                       | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | L26 B11, Brgy. Sto.Domingo, Sta.Rosa, Laguna                                                            | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Jaro, Iloilo (2 lots)                                                                                   | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Barrio of Tinajeros, Malabon City (2 lots)                                                              | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Bo. of San Jose and Poblacion Cabanatuan City (3 lots)                                                  | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Barrio of Mallorca,San Leonardo.Nueva Ecija (2 lots)                                                    | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Poblacion,San Leonardo,Nueva Ecija                                                                      | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Lot 5009 Imus Estate,Imus Cavite                                                                        | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Imus Friar,Imus, Prov. of Cavite (2 lots)                                                               | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Lot 5159 Poblacion, Imus Prov. Of Cavite                                                                | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Barrio of San Rafael & San Roque (2 lots)                                                               | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Bo. Of Pob. 2nd Municipality of Tarlac (2 lots)                                                         | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | 71-B-3-B-4 Barrio Suizo Municipality of Tarlac                                                          | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Bgy. Paringao, Municipality of Bauang, La Union                                                         | Owned                       | Good      |                                                           |                             |                            |
|                           |                                            | Bo. Mabilao, San Fabian, Pangasinan (4 lots)                                                            | Owned                       | Good      |                                                           |                             |                            |
|                           | <b>B. INTERNATIONAL</b>                    |                                                                                                         |                             |           |                                                           |                             |                            |
|                           | <b>Breweries</b>                           |                                                                                                         |                             |           |                                                           |                             |                            |
|                           | San Miguel Beer (Thailand) Ltd.            | 89 Moo2, Tiwanon Rd., Baan Mai, Muang , Pathumtani 12000, Thailand                                      | Owned                       | Good      |                                                           |                             |                            |
|                           | PT Delta Djakarta Tbk                      | Jalan Inspeksi Tarum Barat Desa Setia Darma Tambun Bekasi Timur 17510, Indonesia                        | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel (Guangdong) Brewery Co.,Ltd     | San Miguel Road 1#, Longjiang Town, Shunde District, Guangdong Province, China                          | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel (Baoding) Brewery Co. Ltd.      | Shengli street, Tianwei West Road, Baoding City, Hebei Province, China                                  | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel Brewery Vietnam Ltd.            | Quoc Lo 1 , Suoi Hiep , Dien Khanh , Khanh Hoa                                                          | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel Brewery Hong Kong Limited       | 22 Wang Lee Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong                  | Building-Owned; Land-Rented | Good      | HKD 251,898.00                                            | 2047                        | No renewal options         |
|                           | <b>Sales/Area Offices and Warehouses</b>   |                                                                                                         |                             |           |                                                           |                             |                            |
|                           | Guangzhou San Miguel Brewery Co. Ltd.      |                                                                                                         |                             |           |                                                           |                             |                            |
|                           | Shantou Sales Office                       | Room 803 and Room 804, Underground Parking, Huamei Garden, Shantou City                                 | Owned                       | Good      |                                                           |                             |                            |
|                           | Shunde Sales Office                        | No.1 San Miguel Avenue, Longjiang Town, Shunde District, Foshan City, Guangdong, PRC                    | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel (China) Investment Co. Ltd.     | 1-7A, 1-11A, 1-12A, 1-9C, 1-7C Parkview Tower Chaoyang District Beijing 100027, China                   | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel Baoding Brewery Company Limited |                                                                                                         |                             |           |                                                           |                             |                            |
|                           | San Miguel Baoding Brewery Company Limited | 4-3-102, 4-3-202, 4-3-302 JiXing Yuan, Baoding City                                                     | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel Baoding Brewery Company Limited | JinXia Villa, Baoding City, Hebei Province, China                                                       | Owned                       | Good      |                                                           |                             |                            |
|                           | San Miguel Brewery Hong Kong Limited       | 9 <sup>th</sup> Floor, Citimark Building , No.28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, NT, Hong Kong | Land-Rented                 | Good      | HKD 31,229.00                                             | 2047                        | No renewal options         |
|                           | San Miguel Brewery Hong Kong Limited       | San Miguel Industrial Building, No. 9-11 Shing Wan Road, Tai Wai, Shatin, NT, Hongkong                  | Land-Rented                 | Good      | HKD 16,832.00                                             | 2047                        | No renewal options         |

| Company Name / Subsidiary |                                                              | Address                                                                                                   | Rented / Owned      | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                               |
|---------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|---------------------|-----------|-----------------------------------------------------------|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
|                           | San Miguel (Guangdong) Brewery Co.,Ltd                       |                                                                                                           |                     |           |                                                           |                             |                                                                                                                                          |
|                           | San Miguel (Guangdong) Brewery Co.,Ltd                       | Longjiang, Industrial Estate, Shunde District, Guangdong Province                                         | Land-Rented         | Good      | Entire rent paid at the start of lease term               | May 01, 2053                | For renewal at the expiry date.                                                                                                          |
|                           | Guangzhou Admin Office                                       | Room 702, No. 98, South East Road, Yuexiu District, Guangzhou, Unit A and unit B                          | Office Space-Rented | Good      | RMB 69,243.40                                             | January 04, 2021            | At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties . |
|                           | Dongguan Sales Office                                        | No. 1805, building 3, Grape Manor, No.9 Jinao Avenue, Xincheng District, Wanjiang District, Dongguan city | Office Space-Rented | Good      | RMB 3,300.00                                              | November 29, 2021           | At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties . |
|                           | Shenzhen Sales Office                                        | Kaijiada building, no. 1 industrial park road, dalang street office, longhua district, shenzhen city      | Office Space-Rented | Good      | RMB 4,300.00                                              | November 29, 2021           | At the end of contract, in the same condition, we have the priority right of renewal, lease and rent will be discussed by both parties . |
|                           | Zhongshan Sales Office                                       | Qijiang Road,Shaxi District, Zhongshan City, China                                                        | Leased              | Good      | CNY 1,500.00                                              | November 29, 2021           | At the end of contract ,in the same condition, We have the priority right of renewal, lease and rent will be discussed by both parties.  |
|                           | San Remo Taiwan (SRT)                                        |                                                                                                           |                     |           |                                                           |                             |                                                                                                                                          |
|                           | San Miguel Company Ltd. Taiwan Branch-Taipei                 | 3F-3, No.167, Fusing N. Rd., Taipei, Taiwan (ROC)                                                         | Office Space-Rented | Good      | NT\$140,000.00                                            | April 15, 2022              | For renewal at the end of contract.                                                                                                      |
|                           | San Miguel Company Ltd. Taiwan Branch-Kaohsiung              | No.305-6, Renlin Rd., Renwu Dist., Kaohsiung City 814, Taiwan (R.O.C.)                                    | Office Space-Rented | Good      | NT\$58,000.00                                             | December 31, 2022           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | San Miguel Company Ltd. Taiwan Branch-Taichung               | No.159, Shuwang Rd., Dali Dist., Taichung City 412, Taiwan (R.O.C.)                                       | Office Space-Rented | Good      | NT\$37,143.00                                             | December 30, 2022           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | San Miguel Company Ltd. Taiwan Branch-North Region Warehouse | No. 34-88, Dahu Rd., Guishan Dist., Taoyuan City 333, Taiwan (R.O.C.)                                     | Office Space-Rented | Good      | depends on how much space we use                          | December 31, 2021           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | San Miguel China Investment Company Limited                  | Room 701, Tower 1, Xiaoyun Center, Xiaguangli, No. 15 Chaoyang District, Beijing China 100026             | Office Space-Rented | Good      | RMB 23,000.00                                             | September 23, 2021          | Renewable upon mutual agreement of both parties                                                                                          |
|                           | San Miguel Baoding Brewery Company Limited                   |                                                                                                           |                     |           |                                                           |                             |                                                                                                                                          |
|                           | San Miguel Baoding Brewery Company Limited                   | Shengli Street, Tianwei West Road, Baoding City, Hebei Province, China                                    | Land-Rented         | Good      | Entire rent paid at the start of lease term               | June 01, 2046               | Renewable upon mutual agreement of both parties                                                                                          |
|                           | Shijiazhuang Sales Office                                    | 1-2-802, Kentongmingdi, Jianshe Road, Shi Jia Zhuang City , Hebei Province, China                         | Office Space-Rented | Good      | CNY 1,600.00                                              | March 31, 2021              | Renewable upon mutual agreement of both parties                                                                                          |
|                           | San Miguel Marketing Thailand Limited                        |                                                                                                           |                     |           |                                                           |                             |                                                                                                                                          |
|                           | North sales office                                           | North Office 403/5 Lumpoon Road, Wadked , Amphor Muang , Lumpoon                                          | Office Space-Rented | Good      | THB 13,684.21                                             | December 15, 2021           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | South sales office (Phuket)                                  | 14/4 Moo 4 , Tambon Wichit Amphor Muang, Phuket                                                           | Office Space-Rented | Good      | THB 23,157.90                                             | December 31, 2021           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | South sales office (Samui)                                   | 44/38 Moo 1 Tambon Maenam,Amphur Koh Samui Suratthani                                                     | Office Space-Rented | Good      | THB 21,052.63                                             | September 30, 2021          | Renewable upon mutual agreement of both parties                                                                                          |
|                           | Northeast sales office                                       | 44/50 Moo 3 Chataphadung Rd, Thumbon Naimuang, Amphur Muang Khonkean                                      | Office Space-Rented | Good      | THB 11,578.95                                             | December 31, 2021           | Renewable upon mutual agreement of both parties                                                                                          |
|                           | Pattaya sales office                                         | 263/91 Moo 12 Tambon Nongprue Banglamung Chonburi                                                         | Office Space-Rented | Good      | THB 25,263.16                                             | February 28, 2021           | Renewable upon mutual agreement of both parties                                                                                          |

| Company Name / Subsidiary |                                               | Address                                                                           | Rented / Owned      | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated)                                    | Expiry of Lease<br>Contract                                                     | Terms of Renewal / Options                                           |
|---------------------------|-----------------------------------------------|-----------------------------------------------------------------------------------|---------------------|-----------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------------------------------------------------------------|
|                           | San Miguel Brewery Vietnam Limited            |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | San Miguel Brewery Vietnam Ltd.               | Quoc Lo 1 , Suoi Hiep , Dien Khanh, Khanh Hoa                                     | Land-Rented         | Good      | VND 7,704,250.00                                                                             | November 12, 2024                                                               | Renewable upon mutual agreement of both parties                      |
|                           | Ho Chi Minh Sales Office                      | 180 Nguyen Van Troi Street , Ward 8, Phu Nhuan District, Ho Chi Minh City         | Office Space-Rented | Good      | USD 5,993.16                                                                                 | April 01, 2021                                                                  | Renewable upon mutual agreement of both parties                      |
|                           | Da Nang Sales Office                          | 180 2/9 Street, Da Nang City, Vietnam                                             | Office Space-Rented | Good      | VND 24,000,000.00                                                                            | October 05, 2021                                                                | Renewable upon mutual agreement of both parties                      |
|                           | Nha Trang Sales Office                        | 308 Thong Nhat street, Phuong Son, Nhatrang, Khanh Hoa, Vietnam                   | Office Space-Rented | Good      | VND 22,000,000.00                                                                            | December 31, 2021                                                               | Renewable upon mutual agreement of both parties                      |
|                           | Ho Chi Minh Warehouse                         | 1500/3C, An Phu Dong Ward, Dist 12, Ho Chi Minh City                              | Warehouse-Rented    | Good      | VND 40,000,000.00                                                                            | April 10, 2021                                                                  | Renewable upon mutual agreement of both parties                      |
|                           | Vung Tau Office                               | 215/15 Ba Cu Ward 4, Vung Tau City                                                | Rented              | Good      | VND 5,000,000.00                                                                             | April 01, 2021                                                                  | Renewable upon mutual agreement of both parties                      |
|                           | <b>Power Plant</b>                            |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | San Miguel Baoding Utility                    | Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China            | Owned               | Good      |                                                                                              |                                                                                 |                                                                      |
| <b>2</b>                  | <b>GINEBRA SAN MIGUEL, INC.</b>               |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | <b>A. HEAD OFFICE</b>                         |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | GSMI Office Space                             | 3rd and 6th Floors SMPC Bldg., St. Francis Ave., Ortigas Centre, Mandaluyong City | Owned               | Good      |                                                                                              |                                                                                 |                                                                      |
|                           | GSMI Office Space                             | 5th Floor SMPC Bldg., St Francis Ave., Ortigas Center, Mandaluyong City           | Rented              | Good      | 943,475.44<br>(September 2019 - August 2020); 1,009,518.72<br>(September 2020 - August 2021) | August 31, 2021                                                                 | Renewable upon mutual agreement of both parties                      |
|                           | <b>B. NORTH LUZON</b>                         |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | <b>Plants</b>                                 |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | GSMI Sta. Barbara Plant (Land and Facilities) | Tebag West, Sta. Barbara, Pangasinan                                              | Owned               | Good      |                                                                                              |                                                                                 |                                                                      |
|                           | EPSBPI Cauayan Plant (Land and Facilities)    | San Fermin, Cauayan, Isabela                                                      | Owned               | Good      |                                                                                              |                                                                                 |                                                                      |
|                           | <b>Warehouse/Sales Office</b>                 |                                                                                   |                     |           |                                                                                              |                                                                                 |                                                                      |
|                           | GSMI Cauayan Sales Office                     | 327 Prenza Highway, San Fermin, Cauayan Isabela                                   | Owned               | Good      |                                                                                              |                                                                                 |                                                                      |
|                           | GSMI Pua Warehouse 1                          | Don Jose Canciller St., Cauayan City, Isabela                                     | Rented              | Good      | 387,828.00                                                                                   | March 31, 2021                                                                  | Renewable upon mutual agreement of both parties                      |
|                           | GSMI Pua Warehouse 3                          | Don Jose Canciller St., Cauayan City, Isabela                                     | Rented              | Good      | 328,480.00                                                                                   | February 29, 2020<br>Ongoing renewal of contract. Extended until March 31, 2021 | Renewable upon mutual agreement of both parties                      |
|                           | GSMI Porac Warehouse and Sales Office         | Sta. Cruz, Porac, Pampanga                                                        | Rented              | Good      | 272,250.00                                                                                   | December 31, 2020                                                               | Renewable upon mutual agreement of both parties<br>(Ongoing renewal) |
|                           | GSMI La Union Sales Office                    | Lee Building, Natl. Hiway, Brgy. Carlatan, San Fernando City, La Union            | Rented              | Good      | 17,368.42                                                                                    | December 31, 2020                                                               | Renewable upon mutual agreement of both parties<br>(Ongoing renewal) |
|                           | GSMI Minien Warehouse                         | Brgy. Minien East, Sta. Barbara, Pangasinan                                       | Rented              | Good      | 25,000.00                                                                                    | June 30, 2021                                                                   | Renewable upon mutual agreement of both parties                      |

| Company Name / Subsidiary |                                                                                               | Address                                                                      | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                                                     | Terms of Renewal / Options                              |
|---------------------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------------------------------|---------------------------------------------------------|
|                           | GSMI Lunec Warehouse                                                                          | Brgy. Lunec, Malasiqui, Pangasinan                                           | Rented         | Good      | 490,014.00                                                | February 29, 2020<br>Ongoing renewal of contract. Extended until April 10, 2021 | Renewable upon mutual agreement of both parties         |
|                           | <b>Depot</b>                                                                                  |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Alcohol Depots #1 and #2                                                                 | Brgy. Namonitan, Sto. Tomas (Damortis), La Union                             | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | <b>Land</b>                                                                                   |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Lingayen Property                                                                        | Libsong East, Lingayen, Pangasinan                                           | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Olongapo Property                                                                        | Sta. Rita, Olongapo City, Zambales                                           | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Cauayan Property                                                                         | San Fermin, Cauayan, Isabela                                                 | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | <b>C. GMA</b>                                                                                 |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | <b>Warehouse/Sales Office</b>                                                                 |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Pasig (C5) Sales Office (Warehouse Space, Parking Space and Parking Space with Bathroom) | Maja Compound, Canley Road Corner E. Rodriguez (C5), Bagong Ilog, Pasig City | Rented         | Good      | 883,020.00                                                | June 15, 2021                                                                   | Renewable upon mutual agreement of both parties         |
|                           | GSMI Sucat Parañaque Sales Office                                                             | #8380 Dr. A. Santos Avenue, BF Homes, Parañaque City                         | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | <b>D. SOUTH LUZON</b>                                                                         |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | <b>Plants</b>                                                                                 |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Lucena Plant (Land and Facilities)                                                       | Bgy. Gulang-gulang, Lucena City, Quezon                                      | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | EPSBPI Ligao Plant (Land and Facilities)                                                      | Km 503, Hacienda Mitra, Paulog, Ligao City, Albay                            | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Cabuyao Plant (Land and Facilities)                                                      | Silangan Industrial Estate, Brgy. Pittland, Terelay Phase, Cabuyao, Laguna   | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | <b>Warehouse/Sales Office</b>                                                                 |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Ligao Sales Office                                                                       | Km. 503, Hacienda Mitra, Brgy. Paulog, Ligao City, Albay 4504                | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | EPSBPI Warehouse Extension                                                                    | Km. 503, Hacienda Mitra, Brgy. Paulog, Ligao City, Albay 4504                | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Sales Admin Office                                                                       | 1080 Dona Aurora Boulevard, Gulang-gulang, Lucena City                       | Rented         | Good      | 22,645.50                                                 | November 30, 2022                                                               | Renewable upon mutual agreement of both parties         |
|                           | GSMI Legazpi Warehouse                                                                        | Barangay 42, Rawiz Legazpi City                                              | Rented         | Good      | 126,000.00                                                | June 30, 2021                                                                   | Renewable upon mutual agreement of both parties         |
|                           | GSMI Pagsanjan Sales Office                                                                   | National Road, Brgy. Sabang, Pagsanjan, Laguna                               | Rented         | Good      | 36,000.00                                                 | November 21, 2021                                                               | Renewable upon mutual agreement of both parties         |
|                           | <b>Depot</b>                                                                                  |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | GSMI Cotta Depot                                                                              | Francisco Ferdinand St., Teacher's Village, Bgy. Cotta, Lucena City          | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Tabangao Depot                                                                           | Bgy. Tabangao, Aplaya, Batangas City                                         | Owned          | Good      |                                                           |                                                                                 |                                                         |
|                           | GSMI Alcohol Depot (Tanks 1, 2, 3)                                                            | BBTI, Bauan, Batangas                                                        | Rented         | Good      | 528,000.00                                                | December 31, 2021                                                               | Renewable at the option of the lessee                   |
|                           | GSMI Alcohol Depot (Tanks 4 & 6)                                                              | BBTI, Bauan, Batangas                                                        | Rented         | Good      | 720,000.00                                                | December 31, 2021                                                               | Renewable at the option of the lessee                   |
|                           | GSMI Alcohol Depot (Tanks 5 & 7)                                                              | BBTI, Bauan, Batangas                                                        | Rented         | Good      | 720,000.00                                                | December 31, 2021                                                               | Renewable at the option of the lessee                   |
|                           | GSMI Alcohol Depot (Tanks 8 & 9)                                                              | BBTI, Bauan, Batangas                                                        | Rented         | Good      | 384,000.00                                                | December 31, 2020                                                               | Renewable at the option of the lessee (Ongoing renewal) |
|                           | <b>Land</b>                                                                                   |                                                                              |                |           |                                                           |                                                                                 |                                                         |
|                           | EPSBPI Ligao Plant (Land)                                                                     | KM 503, Hacienda Mitra, Paulog, Ligao City, Albay                            | Owned          | Good      |                                                           |                                                                                 |                                                         |

| Company Name / Subsidiary |                                                                                            | Address                                                                                            | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                                               | Terms of Renewal / Options                                        |
|---------------------------|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------|
| <b>E. VISAYAS</b>         |                                                                                            |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | <b>Plants</b>                                                                              |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | GSMI Mandaue Plant (Land and Facilities)                                                   | Subangdaku, Mandaue City, Cebu                                                                     | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | GSMI Bago Plant (Land and Facilities)                                                      | Brgy. Calumangan, Bago City, Negros Occidental                                                     | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | DBI Alcohol Distillery (Land and Facilities)                                               | Km 13.5, Brgy. Taloc, Bago City, Negros Occidental                                                 | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | DBI Deepwell Sites (Land and Facilities)                                                   | Brgy. Taloc, Bago City, Negros Occidental                                                          | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | <b>Warehouse/Sales Office</b>                                                              |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | GSMI Warehouse                                                                             | Mandaue Port, J. Cenniza St., Looc, Mandaue City                                                   | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | GSMI Bago City Sales Office                                                                | Km 13.5, Brgy. Taloc, Bago City, Negros Occidental                                                 | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | Distileria Bago, Inc. (Aged Alcohol Warehousing and Management)                            | Brgy. Taloc, Bago City, Negros Occidental                                                          | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | GSMI Tacloban Sales Office                                                                 | Picas Sagkahan, Diversion Road, Brgy. 59, Tacloban City                                            | Rented         | Good      | 15,000.00                                                 | October 15, 2021                                                          | Renewable upon mutual agreement of both parties                   |
|                           | <b>Depot</b>                                                                               |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | GSMI Ouano Alcohol Depot                                                                   | Brgy. Looc, City of Mandaue, Island of Cebu                                                        | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | <b>Land</b>                                                                                |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | DBI Relocation Site                                                                        | Brgy. Calumangan, Bago City, Negros Occidental                                                     | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | DBI (160sq.m new acquisition)                                                              | Brgy. Taloc, Bago City, Negros Occidental                                                          | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | GSMI Looc Land (Depot)                                                                     | Mandaue Port, J. Cenniza St., Looc Mandaue City                                                    | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | <b>F. MINDANAO</b>                                                                         |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | <b>Warehouse/Sales Office</b>                                                              |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | GSMI Davao Warehouse and Sales Office                                                      | Brgy. Talomo, Ulas, Davao City                                                                     | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | GSMI Pagadian Sales Office                                                                 | 2nd flr., Nesoricom Prime Arcade, National Highway, Tiguma, Pagadian City                          | Rented         | Good      | 17,894.74                                                 | May 31, 2020<br>Ongoing renewal of contract. Extended until May 31, 2023. | Renewable upon mutual agreement of both parties                   |
|                           | GSMI Cagayan de Oro Sales Office                                                           | Unit 118 & Unit D-218 Lyl Apt., Kimwa Comp. Baloy, Brgy. Tablon, Cagayan De Oro City               | Rented         | Good      | 29,000.00                                                 | December 31, 2020                                                         | Renewable upon mutual agreement of both parties (Ongoing renewal) |
| <b>3</b>                  | <b>FOOD GROUP</b>                                                                          |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | <b>Admin Office/Sales Office</b>                                                           |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | Pasig Office - San Miguel Food and Beverage, Inc. (SMFB)                                   | 17F, 18F, 21F, 22F, 23F JMT Corporate Condominium Building, ADB Avenue, Ortigas Center, Pasig City | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | Iloilo Office - Agro Industrial Cluster                                                    | Melliza St., Iloilo City                                                                           | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | Isabela Sales Office - Poultry                                                             | Soyung, Echague, Isabela                                                                           | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | General Santos Office - Agro Industrial Cluster                                            | Bo. Makar, Calumpang, Gen. Santos City                                                             | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | <b>Admin Office and Feedmill/Processing Plant/Product Development Laboratory/Warehouse</b> |                                                                                                    |                |           |                                                           |                                                                           |                                                                   |
|                           | Cavite Admin Office and Magnolia Plant - Magnolia, Inc.                                    | Governor's Drive, Bo. De Fuego, Gen. Trias, Cavite                                                 | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | Depok Office and Poultry Processing Plant - PT San Miguel Purefoods Indonesia              | Jl. Raya Bogor Km. 37 Sukamaju, Cilodong, Depok, Indonesia                                         | Owned          | Good      |                                                           |                                                                           |                                                                   |
|                           | Tarlac Office, Feedmill and Warehouse Feeds                                                | Luisita Industrial Park, San Miguel, Tarlac City                                                   | Owned          | Good      |                                                           |                                                                           |                                                                   |

| Company Name / Subsidiary |                                                                      | Address                                                          | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options |
|---------------------------|----------------------------------------------------------------------|------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------|
|                           | Bataan Feedmills and Warehouse - Feeds                               | Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan City    | Owned          | Good      |                                                           |                             |                            |
|                           | Pasig Office and Product Development Laboratory - SMFI-Corporate     | SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig City            | Owned          | Good      |                                                           |                             |                            |
|                           | La Pacita Antipolo Office & Plant - Magnolia                         | #88 Garnet, Bario Mambungan, Antipolo City                       | Owned          | Good      |                                                           |                             |                            |
|                           | Bacolod Warehouse - San Miguel Mills Inc.                            | Reclamation Area, Barangay Poblacion, Bacolod City               | Owned          | Good      |                                                           |                             |                            |
|                           | Isabela Feedmill and Warehouse - Feeds                               | Bo. Soyung, Echague, Isabela City                                | Owned          | Good      |                                                           |                             |                            |
|                           | Bulacan Feedmill and Warehouse (San Ildefonso) - Feeds               | Brgy. Malipampang San Ildefonso, Bulacan                         | Owned          | Good      |                                                           |                             |                            |
|                           | <b>Farm/Hatchery</b>                                                 |                                                                  |                |           |                                                           |                             |                            |
|                           | Isabela Cattle Farm - Meats                                          | 3305 San Luis, Cauayan, Isabela City                             | Owned          | Good      |                                                           |                             |                            |
|                           | Calamba Hatchery - Poultry                                           | Brgy Licheria, Calamba City                                      | Owned          | Good      |                                                           |                             |                            |
|                           | Bataan Farm - Poultry                                                | Brgy. General Lim, Orion, Bataan City                            | Owned          | Good      |                                                           |                             |                            |
|                           | Bukidnon Hatchery - Poultry                                          | Kapitan Bayong, Impasug-ong, Bukidnon City                       | Owned          | Good      |                                                           |                             |                            |
|                           | Bukidnon Hog Farm - Meats                                            | San Vicente, Sumilao, Bukidnon City                              | Owned          | Good      |                                                           |                             |                            |
|                           | Laguna Cattle Farm - Meats                                           | Brgy. Mabacan, Calauan, Laguna                                   | Owned          | Good      |                                                           |                             |                            |
|                           | <b>Flourmill/Feedmill</b>                                            |                                                                  |                |           |                                                           |                             |                            |
|                           | Iloilo Feedmill - Feeds                                              | Brgy. Gua-an, Leganes, Iloilo                                    | Owned          | Good      |                                                           |                             |                            |
|                           | Pangasinan Feedmill - Feeds                                          | Brgy. Bued, Binalonan, Pangasinan City                           | Owned          | Good      |                                                           |                             |                            |
|                           | Mabini Flourmill - San Miguel Mills, Inc.                            | Brgy. Bulacan, Mabini, Batangas City                             | Owned          | Good      |                                                           |                             |                            |
|                           | Tabangao Flourmill - San Miguel Mills, Inc.                          | Brgy. Tabangao, Batangas City                                    | Owned          | Good      |                                                           |                             |                            |
|                           | Bukidnon Feedmill - Feeds                                            | Impalutao, Impasug-ong, Bukidnon City                            | Owned          | Good      |                                                           |                             |                            |
|                           | Davao Feedmill - Feeds                                               | Sitio Landing, Brgy. Darong , Sta. Cruz, Davao Del Sur           | Owned          | Good      |                                                           |                             |                            |
|                           | Pavia Iloilo Feedmill - SMFI - Feeds                                 | Brgy. Mali-ao Pavia, Iloilo                                      | Owned          | Good      |                                                           |                             |                            |
|                           | Ormoc Feedmill - SMFI - Feeds                                        | Brgy, Macabug, Ormoc City                                        | Owned          | Good      |                                                           |                             |                            |
|                           | Misamis Oriental Feedmill - SMFI - Feeds                             | Brgy Gracia, Sitio Kivulda, Phividec, Tagoloan, Misamis Oriental | Owned          | Good      |                                                           |                             |                            |
|                           | Mandaue Feedmill - SMFI - Feeds                                      | JL Ceniza St., Brgy Looc, Mandaue City                           | Owned          | Good      |                                                           |                             |                            |
|                           | <b>Grain Terminal</b>                                                |                                                                  |                |           |                                                           |                             |                            |
|                           | Mabini Bulk Grain Handling Terminal - San Miguel Mills, Inc. (GBGTC) | Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas City       | Owned          | Good      |                                                           |                             |                            |
|                           | <b>Land</b>                                                          |                                                                  |                |           |                                                           |                             |                            |
|                           | Mabini Land - SMFB                                                   | Brgy. Bulacan, Mabini, Batangas City                             | Owned          | Good      |                                                           |                             |                            |
|                           | Pasig Land - San Miguel Mills, Inc. (GAC)                            | San Miguel Ave., Corner Tektite Road, Pasig City                 | Owned          | Good      |                                                           |                             |                            |
|                           | Bulacan Land - SMFI Feeds                                            | Malipampang, San Ildefonso, Bulacan                              | Owned          | Good      |                                                           |                             |                            |
|                           | General Santos Warehouse - Feeds                                     | Bo. Makar, Calumpang, Gen. Santos City                           | Owned          | Good      |                                                           |                             |                            |
|                           | Bacolod Land - SMMI                                                  | Reclamation Area, Barangay Poblacion, Bacolod City               | Owned          | Good      |                                                           |                             |                            |
|                           | Isabela Land - Feeds                                                 | Bo. Soyung, Echague, Isabela City                                | Owned          | Good      |                                                           |                             |                            |
|                           | Iloilo Land - Feeds                                                  | Brgy. Gua-an. Leganes, Iloilo                                    | Owned          | Good      |                                                           |                             |                            |
|                           | <b>Processing Plant</b>                                              |                                                                  |                |           |                                                           |                             |                            |
|                           | Binh Duong Processing Plant - San Miguel Purefoods (VN) Co., Ltd.    | An Tay, Ben Cat, Binh Duong, Vietnam                             | Owned          | Good      |                                                           |                             |                            |
|                           | Cavite Meat Plant - Purefoods Hormel Company, Inc.                   | Bo. De Fuego, Brgy. San Francisco, Gen. Trias, Cavite            | Owned          | Good      |                                                           |                             |                            |
|                           | Davao Poultry Processing Plant - Poultry                             | Brgy. Sirawan, Toril Davao City                                  | Owned          | Good      |                                                           |                             |                            |

| Company Name / Subsidiary |                                                                                                                | Address                                                                                     | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                               |
|---------------------------|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Cavite Meat Plant - Meats                                                                                      | Governor's Drive Bo. Langkaan 1, Dasmarinas Cavite City                                     | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | Laguna Ice Cream Plant - Golden Food Management Inc. (GFMI, formerly Golden Food & Dairy Creamery Corporation) | Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna                     | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | San Fernando Processing Plant                                                                                  | SMC Complex, Quebiawan, San Fernando, Pampanga                                              | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | <b>Processing Plant and Cold Storage</b>                                                                       |                                                                                             |                |           |                                                           |                             |                                                                                                                                                          |
|                           | Mandaue Poultry Processing Plant and Cold Storage - SMFI - Poultry                                             | Riverside, Canduman, Mandaue City                                                           | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | <b>Warehouse</b>                                                                                               |                                                                                             |                |           |                                                           |                             |                                                                                                                                                          |
|                           | Quezon City Warehouse - Purefoods Hormel Company, Inc.                                                         | Regalado Ave., Fairview, Quezon City                                                        | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | <b>Admin Office</b>                                                                                            |                                                                                             |                |           |                                                           |                             |                                                                                                                                                          |
|                           | Mandaluyong Office - San Miguel Food and Beverage, Inc.                                                        | 40 San Miguel Ave., Mandaluyong City                                                        | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | Laguna Office - Poultry                                                                                        | 2nd & 3rd Floor, Andenson Building III, National Hi-way, Brgy. Parian, Calamba City, Laguna | Rented         | Good      | Jan-July: 856,604.16<br>Aug-Dec: 925,132.00               | July 31, 2021               | Renewable every 5 years                                                                                                                                  |
|                           | Davao Office - Poultry                                                                                         | 3rd Floor Alpha Bldg., Lanang Business Park, Lanang, Davao                                  | Rented         | Good      | 321,599.60                                                | August 31, 2025             | Renewable every 5 years                                                                                                                                  |
|                           | Ho Chi Minh Office - SMPFVN                                                                                    | 6F Mekong Tower, 235-241 Ward 13, Tan Binh, Ho Chi Minh City, Vietnam                       | Rented         | Good      | VND 35,863,636.00                                         | July 31, 2025               | Renewable every 5 years                                                                                                                                  |
|                           | Cebu Office - Poultry                                                                                          | 5th and 6th Flr., Clotilde Bldg., Casuntingan, Mandaue City, Cebu                           | Rented         | Good      | 178,200.00                                                | June 30, 2023               | Renewable every 3 years                                                                                                                                  |
|                           | Cebu Office - Great Food Solutions, Poultry and SMIS                                                           | 7th Floor Clotilde Bldg., Casuntingan, Mandaue City, Cebu                                   | Rented         | Good      | 27,000.00 (GFS)<br>59,400.00 (Poultry)<br>59,400 (SMIS)   | June 30, 2023               | Renewable upon mutual agreement of both parties                                                                                                          |
|                           | Zamboanga Office - Poultry                                                                                     | Don Alfonso Marquez Subd., MCLL Highway Tetuan Zamboanga City                               | Rented         | Good      | 30,387.63                                                 | December 31, 2021           | Renewable every year                                                                                                                                     |
|                           | Bukidnon Office - Agro Industrial Cluster and Poultry                                                          | Propia St. , Malaybalay, Bukidnon                                                           | Rented         | Good      | 133,928.57                                                | January 31, 2023            | Renewable every 2 years                                                                                                                                  |
|                           | Cagayan de Oro Office - Agro Industrial Cluster and Poultry                                                    | Masterson Avenue Zone 13, Carmen, Cagayan de Oro                                            | Rented         | Good      | 370,729.43                                                | June 30, 2021               | Renewable every 5 years                                                                                                                                  |
|                           | Dumaguete Office - Poultry                                                                                     | Unit 1-C, JC Building, Ipil Road, Brgy. Daro, Dumaguete City                                | Rented         | Good      | 28,359.38                                                 | October 30, 2021            | Lease may be renewed upon mutual consent of both parties, after written notice to renew is given by the Lessee to the Lessor 60 days before expiry date. |
|                           | Bacolod Office - Poultry                                                                                       | NFCC Cybercentre Complex, Lacson Cr. Hernaez St., Bacolod City                              | Rented         | Good      | 238,419.00                                                | June 30, 2022               | Renewable every 3 years                                                                                                                                  |
|                           | Davao Office - Meats                                                                                           | Marapangi, Toril, Davao City                                                                | Rented         | Good      | 7,500.00                                                  | January 31, 2021            | Renewable upon mutual agreement of both parties                                                                                                          |
|                           | Batangas Office - Poultry                                                                                      | San Roque, Sto Tomas, Batangas                                                              | Rented         | Good      | 9,000.00                                                  | January 31, 2021            | Renewable every year                                                                                                                                     |
|                           | C5 Pasig Office - SMFB, SMFI, PHC, Magnolia, Coffee, SMMI                                                      | 100 E. Rodriguez Jr. Ave., C5 Road, Ugong, Pasig City                                       | Owned          | Good      |                                                           |                             |                                                                                                                                                          |
|                           | Tacloban Office - SMFI - AIC                                                                                   | Unit 12, 2nd Floor Bldg. B, Metrobank Center, Juan Luna St., Brgy. Poblacion, Palo, Leyte   | Rented         | Good      | 53,773.20                                                 | October 21, 2023            | Renewable every 5 years                                                                                                                                  |
|                           | Ormoc Office - SMFI - AIC                                                                                      | AW Square 3rd/F R#3F Cor. Real & San Vidal St., Ormoc City                                  | Rented         | Good      | 30,800.00                                                 | November 30, 2024           | Renewable every 5 years                                                                                                                                  |



| Company Name / Subsidiary |                                                                                                                                                      | Address                                                                       | Rented / Owned | Condition | Monthly Rental<br>(In Php, Unless<br>Otherwise Indicated)                                                                                                                                                     | Expiry of Lease<br>Contract                                                                                                                                                                               | Terms of Renewal / Options                                                                                                                             |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           |                                                                                                                                                      | <b>Admin Office and Cold Storage/Processing Plant/Warehouse</b>               |                |           |                                                                                                                                                                                                               |                                                                                                                                                                                                           |                                                                                                                                                        |
|                           | Bohol Admin Office - Poultry                                                                                                                         | Eastern Poblacion, Alburquerque, Bohol                                        | Rented         | Good      | 7,200.00                                                                                                                                                                                                      | November 30, 2022                                                                                                                                                                                         | Renewable every 3 years                                                                                                                                |
|                           | Butuan Office and Cold Storage - Agro Industrial Cluster and Poultry                                                                                 | Km 9 Tag-ibo Butu-an                                                          | Rented         | Good      | 8,210.71 (Office)<br>443,820.84 (Cold Storage)                                                                                                                                                                | 31-Mar-2023<br>(Office - AIC and Cold Storage - Poultry)                                                                                                                                                  | Renewable every 5 years (Office & Cold Storage)                                                                                                        |
|                           | Misamis Occidental Office and Cold Storage - Agro Industrial Cluster and Poultry                                                                     | Mailen, Clarin, Misamis Occidental                                            | Rented         | Good      | 12,000.00 (Office)<br>278,423.00 (Cold Storage)                                                                                                                                                               | 31-Dec-2021 (Office)<br>31-Dec-2022 (Cold Storage)                                                                                                                                                        | Renewable every year (Office)<br>Renewable every 5 years (Cold Storage)                                                                                |
|                           | Camarines Sur Office - SMFI - AIC; Office, Quality Assurance Office, Cold Storage and Holding Room - SMFI - Poultry; and Cold Storage - SMFI - Meats | Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur                    | Rented         | Good      | 57,500 (Office AIC)<br>548,500.00 (Office - Poultry)<br>267,857.14 (QA Office - Poultry)<br>1,640,821.00 (Cold Storage - Poultry)<br>553,797.00 (Holding Room - Poultry)<br>383,699.68 (Cold Storage - Meats) | November 15, 2021 (AIC Office)<br>Continuing unless terminated and agreed by both parties (Poultry Admin and QA Office)<br>Decemer 31, 2021 (Poultry Cold Storage & Holding Room, and Meats Cold Storage) | Renewable annually (AIC Office & Poultry Admin & QA Office)<br>Renewable every 3 years (Poultry Cold Storage and Holding Room, and Meats Cold Storage) |
|                           | Iloilo Office and Cold Storage - SMIS                                                                                                                | Iloilo Sales Options, Brgy. Mali-ao Pavia Iloilo, Jentec Storage Corp. Iloilo | Rented         | Good      | 9,000 (Office)<br>494,519.08 (Cold Storage - SMIS)                                                                                                                                                            | January 1, 2021 (Office)<br>March 31, 2021 (Cold Storage SMIS)                                                                                                                                            | Renewable upon mutual agreement of both parties                                                                                                        |
|                           | Cebu Office, Labatory & Cold Storage - Poultry                                                                                                       | Brgy. Pangdan, Naga City, Cebu                                                | Rented         | Good      | 60,000.00 ( Office and Labatory)<br>1,305,759.45 (Cold Storage)                                                                                                                                               | June 30, 2021                                                                                                                                                                                             | Renewable every 6 months                                                                                                                               |
|                           | Cavite Cold Storage - Magnolia, Inc., Meats and Poultry                                                                                              | Anabu Hills Industrial Estate, Anabu 1-c, Imus Cavite                         | Rented         | Good      | Cold Storage:<br>1,684,698.97 (Magnolia)<br>3,495,898.41 (Meats)<br>967,520.36 (Poultry)<br>Warehouse:<br>738,464.08 (Meats)                                                                                  | December 31, 2020                                                                                                                                                                                         | Renewable every year (Ongoing renewal)                                                                                                                 |
|                           | Mandaue Office and Cold Storage - Poultry                                                                                                            | Lot 2459-B1&B2 Batiller Street, Barangay Umapad, Mandaue City                 | Rented         | Good      | 221,019.00 (Office)<br>1,358,893.12 (Cold Storage)                                                                                                                                                            | March 31, 2021                                                                                                                                                                                            | Renewable upon mutual agreement of the parties                                                                                                         |
|                           | Cebu Cold Storage - Poultry                                                                                                                          | F.E. Zuellig Ave., North Reclamation Area, Mandaue, Cebu                      | Rented         | Good      | 4,003,437.40                                                                                                                                                                                                  | July 31, 2021                                                                                                                                                                                             | Renewable every 3 years                                                                                                                                |
|                           | Mandaue Office and Storage - Poultry                                                                                                                 | 245 Subangdaku, Mandaue City                                                  | Rented         | Good      | 59,400.00                                                                                                                                                                                                     | June 30, 2023                                                                                                                                                                                             | Renewable upon mutual agreement of both parties                                                                                                        |
|                           |                                                                                                                                                      | <b>Cold Storage</b>                                                           |                |           |                                                                                                                                                                                                               |                                                                                                                                                                                                           |                                                                                                                                                        |
|                           | Davao Cold Storage - Poultry                                                                                                                         | Daliao, Toril Davao                                                           | Rented         | Good      | 189,963.20                                                                                                                                                                                                    | December 31, 2020                                                                                                                                                                                         | Renewable every year (Ongoing renewal)                                                                                                                 |
|                           | Navotas Cold Storage - Poultry and Purefoods Hormel Company, Inc.                                                                                    | Lapu-Lapu Ave. and C3 Road cor. Northbay Blvd., Navotas                       | Rented         | Good      | 6,514,420.00 (Poultry)<br>12,008,283.82 (PHC)                                                                                                                                                                 | September 30, 2021                                                                                                                                                                                        | Renewable every 2 years                                                                                                                                |
|                           | Misamis Oriental Cold Storage - Poultry                                                                                                              | Mohon Tagoloan Misamis Oriental                                               | Rented         | Good      | 379,238.00                                                                                                                                                                                                    | December 31, 2021                                                                                                                                                                                         | The Lessee maybe pre-terminate the Contract without cause by giving 60 days prior written notice to the Lessor                                         |



| Company Name / Subsidiary |                                                        | Address                                                                                        | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                           |
|---------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Misamis Oriental Cold Storage - Meats                  | Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental                           | Rented         | Good      | 47,600.00                                                 | February 28, 2021                                       | Renewable upon mutual agreement of both parties (Meats)                                                                                                              |
|                           | Palawan Cold Storage - Poultry                         | Puerto Princesa, Palawan                                                                       | Rented         | Good      | 346,500.00                                                | December 31, 2021                                       | Renewable every 2 years                                                                                                                                              |
|                           | Davao Cold Storage - Poultry and Meats                 | Purok 15, Panungtungan, Tibungco, Davao                                                        | Rented         | Good      | 1,977,853.85 (Poultry)<br>610,951.30 (Meats)              | September 30, 2021                                      | Renewable every 3 years                                                                                                                                              |
|                           | Pangasinan Cold Storage - Poultry                      | Brgy. Mabilao, San Fabian, Pangasinan 2433                                                     | Rented         | Good      | 204,984.00                                                | September 30, 2023                                      | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Bacolod Cold Storage - Poultry                         | Calong-calong, Airport Subd, Brgy Singcang, Bacolod City                                       | Rented         | Good      | 220,535.74                                                | December 31, 2020                                       | Renewable every 3 years<br>(Ongoing renewal)                                                                                                                         |
|                           | Misamis Oriental Cold Storage - Meats                  | Sta. Ana, Tagoloan, Misamis Oriental                                                           | Rented         | Good      | 118,552.00                                                | December 31, 2021                                       | Renewed upon the expiry of its contract term for the like period(s) under the same terms and conditions, except as may be otherwise agreed by the parties in writing |
|                           | Mandaluyong Cold Storage - San Miguel Integrated Sales | 10th floor San Miguel Properties Centre, 7 St. Francis st. Mandaluyong City                    | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                      |
|                           | Pasig Cold Storage - Great Food Solutions              | Luis St., San Miguel, Pasig City                                                               | Rented         | Good      | 1,414,643.10                                              | June 30, 2021                                           | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Dagupan Cold Storage - SMIS                            | AB Fernandez Ave., Dagupan City                                                                | Rented         | Good      | 1,534,057.03                                              | June 30, 2021                                           | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Pampanga Cold Storage - SMIS                           | Gloria 1 Sindalan, San Fernando, Pampanga                                                      | Rented         | Good      | 1,651,206.99                                              | June 30, 2021                                           | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Isabela Cold Storage - Meats                           | San Luis, Cauayan, Isabela                                                                     | Rented         | Good      | 302,728.56                                                | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Calamba Cold Storage - SMIS                            | Logistikus, Inc., Bldg 4, Molson Park, CA Yulo Ave, Canlubang Industrial Park, Calamba, Laguna | Rented         | Good      | 3,226,171.64                                              | March 31, 2021                                          | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Cagayan De Oro Cold Storage - SMFI - SMIS              | Door 6 Waterside Living Complex, J Pacana St., Cagayan De Oro City                             | Rented         | Good      | 42,130.27                                                 | June 30, 2021                                           | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Cagayan De Oro Cold Storage - SMFI - Poultry           | Tablon, Cagayan de Oro City                                                                    | Rented         | Good      | 1,756,430.00                                              | March 31, 2021                                          | Renewable upon mutual agreement of both parties                                                                                                                      |
|                           | Carmona Cavite Cold Storage - SMFI - Poultry           | Blk 2 Lot 4&5 Soutwoods Industrial Park, Carmona, Cavite                                       | Rented         | Good      | 3,500,565.41                                              | January 23, 2021                                        | Renewable every year                                                                                                                                                 |
|                           | Palawan Cold Storage - SMFI - Poultry                  | Abara Road, Brgy. San Pedro, Puerto Princesa City, Palawan                                     | Rented         | Good      | 346,500.00                                                | December 31, 2021                                       | Renewable every year                                                                                                                                                 |
|                           | Misamis Oriental Cold Storage - SMFI - Poultry         | Sugbongcogon Phividic, Misamis Oriental                                                        | Rented         | Good      | 128,220.00                                                | February 28, 2021                                       | Renewable every year                                                                                                                                                 |
|                           | Negros Oriental - Cold Storage - SMFI - Poultry        | Sra Ascion, San Jose, Negros Oriental                                                          | Rented         | Good      | 841,726.35                                                | October 28, 2021                                        | Renewable every 3 years                                                                                                                                              |
|                           | Tagoloan Cold Storage - SMFI - Poultry                 | Zone 18,Natumolan,Tagoloan Misamis Oriental                                                    | Rented         | Good      | 2,760,251.38                                              | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                 |

| Company Name / Subsidiary |                                                                                                                         | Address                                               | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated)                            | Expiry of Lease<br>Contract                                   | Terms of Renewal / Options                                           |
|---------------------------|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|----------------|-----------|--------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------|
|                           | <b>Cold Storage and Blast Freezing Facility/Holding Room/Laboratory/Warehouse/Processing Plant/Mixes Storage/Office</b> |                                                       |                |           |                                                                                      |                                                               |                                                                      |
|                           | Bulacan Holding Room - SMFI - Poultry                                                                                   | #95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan | Rented         | Good      | 178,685.00                                                                           | June 30, 2022                                                 | Renewable every 3 years                                              |
|                           | Bulacan Cold Storage and Holding Room - Poultry                                                                         | 111 Pulong Gubat, Balagtas Bulacan                    | Rented         | Good      | 2,391,480 (Cold Storage)<br>811, 795.00 (Holding Room)                               | December 31, 2022                                             | Renewable every 2 years                                              |
|                           | Pampanga Cold Storage- SMFI - Meats & Mixes Storage - Poultry                                                           | 888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga  | Rented         | Good      | 2,136,013.22 (Cold Storage)<br>6,752.00 (Mixes Storage)                              | December 31, 2021                                             | Renewable upon mutual agreement of both parties                      |
|                           | Leyte Cold Storage and Office and Labatory - Poultry                                                                    | Brgy. Antipolo, Albueria, Leyte                       | Rented         | Good      | 1,637,614.00 (Cold Storage)<br>35,000.00 (Office and Labatory)                       | August 31, 2025                                               | Renewable every 5 years                                              |
|                           | Bulacan Cold Storage, Holding Room and Laboratory - Poultry                                                             | Brgy. Caysio, Sta. Maria, Bulacan                     | Rented         | Good      | 2,704,334.00 (Cold Storage)<br>990,746.00 (Holding Room)<br>30,164.56 (Laboratory)   | February 28, 2022<br>(Cold Storage, Holding Room, Laboratory) | Renewable every 3 years (Cold Storage, Holding Room, Laboratory)     |
|                           | La Union Cold Storage, Holding Room and Laboratory - Poultry                                                            | Brgy. Rabon, Rosario, La Union 2506                   | Rented         | Good      | 1,794,978.13 (Cold Storage & Holding Room)<br>72,081.00 (Laboratory)                 | September 30, 2023                                            | Renewable every 3 years                                              |
|                           | Iloilo Cold Storage - Poultry and Meats                                                                                 | Brgy. Sambag Jaro Iloilo                              | Rented         | Good      | 238, 860.34 (Poultry)<br>60,415.89 (Meats)                                           | December 31, 2020                                             | Renewable upon mutual agreement of both parties<br>(Ongoing renewal) |
|                           | Pampanga Cold Storage, Holding Room and Labatory - Poultry                                                              | Brgy. San Isidro, San Simon, Pampanga                 | Rented         | Good      | 906,252.00 (Cold Storage)<br>317,853.00 (Holding Room)<br>49,090.00 (Labatory)       | July 07, 2022                                                 | Renewable every 5 years                                              |
|                           | Tarlac Cold Storage, Holding Room and Laboratory - Poultry                                                              | Brgy. San Nicolas Balas, Concepcion, Tarlac 2316      | Rented         | Good      | 1,810,069.00 (Cold Storage)<br>1,211,826.00 (Holding Room)<br>37,882.07 (Laboratory) | December 31, 2021                                             | Renewable every 3 years (Cold storage)                               |
|                           | Bataan Cold Storage and Holding Room - Poultry                                                                          | Brgy. Tumalo, Hermosa, Bataan                         | Rented         | Good      | 2,363,154.00 (Cold Storage)<br>1,088,895.00 (Holding Room)<br>32,215.84 (Labatory)   | December 31, 2021                                             | Renewable every 3 years                                              |
|                           | Nueva Ecija Cold Storage, Holding Room and Labatory- Poultry                                                            | Km104, Brgy Tabuating, San Leonardo, Nueva Ecija      | Rented         | Good      | 650,183.63 (Cold Storage)<br>696,779.25 (Holding Room)<br>218,560.00 (Labatory)      | March 8, 2021                                                 | Renewable every 3 years                                              |
|                           | Iloilo Cold Storage and Processing Plant - Poultry                                                                      | Barangay Tungay, Sta. Barbara, Iloilo                 | Rented         | Good      | 849,650.00 (Cold storage)<br>474,483.96 (Processing plant)                           | December 31, 2023                                             | Renewable every 3 years                                              |
|                           | Negros Oriental Cold Storage and Processing Plant - Poultry                                                             | Bolocboloc Sibulan Negros Oriental                    | Rented         | Good      | 11,552.02 (Processing Plant)<br>114,975.00 (Cold Storage)                            | October 31, 2021                                              | Renewable every 3 years                                              |

| Company Name / Subsidiary |                                                                            | Address                                                                 | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated)  | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                           |
|---------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------|-----------|------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------|
|                           | Negros Occidental Processing Plant and Cold Storage & Laboratory - Poultry | Hda Binunga. Brgy Guinhalaran, Silay City, Negros Occidental            | Rented         | Good      | 395,443.01 (Processing Plant)<br>672,383.29 (Cold Storage) | January 31, 2021                                        | Renewable every 3 years                                              |
|                           | <b>Foreshore</b>                                                           |                                                                         |                |           |                                                            |                                                         |                                                                      |
|                           | Mabini Bulk Grain Handling Terminal Foreshore - GBGTC                      | Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas                   | Rented         | Good      | 373,949.14                                                 | December 31, 2025                                       | Lease may be renewed for another 25 years at the option of the DENR  |
|                           | Mabini Foreshore - San Miguel Mills, Inc.                                  | Brgy. Bulacan, Mabini, Batangas                                         | Rented         | Good      | 49,089.06                                                  | Continuing unless terminated and agreed by both parties | Lease may be renewed for another 25 years at the option of the DENR  |
|                           | Tabangao Foreshore - San Miguel Mills, Inc.                                | Brgy. Tabangao, Batangas                                                | Rented         | Good      | 9,648.63                                                   | August 22, 2024                                         | Lease may be renewed for another 25 years at the option of the DENR  |
|                           | <b>Land</b>                                                                |                                                                         |                |           |                                                            |                                                         |                                                                      |
|                           | Mabini Bulk Grain Handling Terminal (Land only) - GBGTC                    | Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas                   | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Pangasinan Feedmill (Land only) - Feeds                                    | Brgy. Bued, Binalonan, Pangasinan                                       | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Mabini Flourmill (Land Only) - San Miguel Mills, Inc.                      | Brgy. Bulacan, Mabini, Batangas                                         | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Bataan Farm (Land only) - Poultry                                          | Brgy. General Lim, Orion, Bataan                                        | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Bataan Feedmill (Land only) - Feeds                                        | Mindanao Avenue, Corner 10th Ave. BEZ, Mariveles, Bataan                | Rented         | Good      | 1,260,960.00 (Plant 1)<br>716,214.10 (Plant 2)             | December 31, 2054 (Plant 1)<br>March 31, 2041 (Plant 2) | Renewable upon mutual agreement of both parties                      |
|                           | Cebu Land - San Miguel Mills, Inc.                                         | P. Rodriguez Street & Dad Cleland Road, Poblacion, Lapu-Lapu, Cebu      | Rented         | Good      | Jan-June : 3,492,045<br>July -Dec : 3,666,648              | May 31, 2031                                            | Renewable upon mutual written agreement of the parties               |
|                           | Pasig Office (Land Only) - San Miguel Foods, Inc. - Corporate              | SMFG Cmpd., Legaspi cor. Eagle St., Ugong, Pasig                        | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Pampanga Processing Plant (Land Only) - Poultry                            | SMPFC Region Office, SMC Complex, Quebiawan, San Fernando, Pampanga     | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Laguna Ice Cream Plant (Land Only) - Magnolia (GFDCC)                      | Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | Ready-to-Eat Plant (Land Only) - Great Food Solutions                      | Sta. Rosa Industrial Complex, Brgy. Pulong Sta. Cruz, Sta. Rosa, Laguna | Owned          | Good      |                                                            |                                                         |                                                                      |
|                           | <b>Processing Plant</b>                                                    |                                                                         |                |           |                                                            |                                                         |                                                                      |
|                           | Lipa Dressing Plant - Poultry                                              | Brgy Kayumanggi, Lipa                                                   | Rented         | Good      | 1,037,190.00                                               | March 01, 2023                                          | Renewable every 3 years                                              |
|                           | Quezon Processing Plant - Poultry                                          | Brgy Lagalag, Tiaong, Quezon                                            | Rented         | Good      | 2,811,599.00                                               | June 30, 2021                                           | Renewable every 3 years                                              |
|                           | Puerto Princesa Dressing Plant - Poultry                                   | Brgy Tagburos, Puerto Princesa                                          | Rented         | Good      | 20,000.00                                                  | December 31, 2021                                       | Renewable upon mutual agreement of both parties                      |
|                           | Albay Processing Plant - Poultry                                           | Brgy. Anislag, Daraga, Albay                                            | Rented         | Good      | 163,578.00                                                 | July 31, 2021                                           | Renewable every 3 years                                              |
|                           | Lucena Processing Plant - Poultry                                          | Brgy. Bocohan, Lucena                                                   | Rented         | Good      | 1,534,600.00                                               | June 30, 2021                                           | Renewable every 3 years                                              |
|                           | Isabela Processing Plant - Poultry                                         | Garit Sur, Echague Isabela                                              | Rented         | Good      | 633,400.00                                                 | March 15, 2021                                          | Renewable every 3 years                                              |
|                           | South Cotabato Processing Plant - Poultry                                  | Polomolok, South Cotabato                                               | Rented         | Good      | 169,150.08                                                 | December 31, 2021                                       | Renewable upon mutual agreement of both parties                      |
|                           | Davao City Processing Plant - SMFI - Poultry                               | R.Castillo, Davao City                                                  | Rented         | Good      | 234,500.00                                                 | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal) |
|                           | Rizal Processing Plant - Poultry                                           | #1 Sitio Kapatagan, Brgy. Pinugay, Baras, Rizal                         | Rented         | Good      | 327,431.86                                                 | February 28, 2021                                       | Renewable every year                                                 |
|                           | Davao Processing Plant - SMFI - Meats                                      | Marapangi, Toril, Davao City                                            | Rented         | Good      | 73,660.71                                                  | January 31, 2021                                        | Renewable upon mutual agreement of both parties                      |
|                           | Batangas Processing Plant - SMFI - Meats                                   | Brgy Aya, San Jose, Batangas                                            | Rented         | Good      | 2,874,728.46                                               | December 31, 2022                                       | Renewable upon mutual agreement of both parties                      |

| Company Name / Subsidiary |                                                                         | Address                                                                               | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                                                                                                          |
|---------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Davao Processing Plant - SMFI - Meats                                   | Marilog District, Davao City                                                          | Rented         | Good      | 2,519,299.61                                              | March 03, 2023                                          | Renewable upon mutual agreement of both parties                                                                                                                                                                                                     |
|                           | South Cotabato Processing Plant - Meats                                 | Purok 3, Brgy. Glamang, Polomolok, South Cotabato                                     | Rented         | Good      | 906,949.03                                                | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of both parties                                                                                                                                                                                                     |
|                           | Zamboanga Processing Plant -- Poultry                                   | Km. 10 National Highway, Boalan, Zamboanga City                                       | Rented         | Good      | 711,711.03                                                | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                                                                                                |
|                           | <b>Sales Office</b>                                                     |                                                                                       |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                     |
|                           | Iloilo Office - San Miguel Integrated Sales                             | Orbe St., Brgy. Baybay Norte, Miag-ao, Iloilo                                         | Rented         | Good      | 8,928.57                                                  | June 30, 2028                                           | Renewable upon mutual agreement of both parties                                                                                                                                                                                                     |
|                           | Antipolo City Sales Office - SMMI                                       | KM23 Sumulong Highway, Brgy. Sta. Cruz, Antipolo City                                 | Rented         | Good      | 24,500.00                                                 | February 17, 2024                                       | Lessee shall notify lessor of its intention to renew this Contract, and any renewal agreement shall be subject to mutual written agreement by both parties                                                                                          |
|                           | Bacoor City Sales Office (Kambal Pandal) - SMMI                         | Spring Ville Central Park, Ph3 Molino 3, Bacoor, Cavite                               | Rented         | Good      | 10,000.00                                                 | June 17, 2024                                           | Either party may terminate agreement by giving at least 30 days notice. If the lessee is not able to pay the monthly rent for 2 consecutive months, the Lessor has the option to terminate the contract.                                            |
|                           | Las Piñas City Sales Office - Foodcrave Marketing, Inc. (FMI)           | Casimiro Commercial Center, Las Piñas City                                            | Rented         | Good      | 34,000.00                                                 | August 22, 2024                                         | Any renewal or extension must be approved and agreed on in writing by both the Lessor and the Lessee                                                                                                                                                |
|                           | <b>Selling Outlets</b>                                                  |                                                                                       |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                     |
|                           | Pembo Makati Selling Outlet - Foodcrave Marketing, Inc.                 | 199 Lot 20A Sampaguita St., Pembo, Makati City                                        | Rented         | Good      | 21,052.63                                                 | December 31, 2022                                       | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | East Rembo Makati City Selling Outlet - Foodcrave Marketing, Inc.       | 184-A 20th Ave., Brgy. East Rembo, Makati City                                        | Rented         | Good      | 15,789.47                                                 | January 31, 2021                                        | Renewable by mutual agreement of the parties. However should there be some operational losses on the part of the lessee he could terminate this contract with prior notice to the lessor in writing at the least (2) months before its termination. |
|                           | Damayan Quezon City Selling Outlet - Foodcrave Marketing, Inc.          | 50 Tolentino St. Cor. F. Bautista St., Damayan, Quezon City                           | Rented         | Good      | 12,631.58                                                 | November 30, 2021                                       | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | Village East Quezon City Selling Outlet - Foodcrave Marketing, Inc.     | 113 Maginhawa St., Brgy. Teacher's Village East, Quezon City                          | Rented         | Good      | 36,842.11                                                 | December 14, 2021                                       | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | Pasong Tamo Quezon City Selling Outlet - Foodcrave Marketing, Inc.      | 328 Tandang Sora Ave, Brgy. Pasong Tamo 6, Quezon City                                | Rented         | Good      | 26,315.79                                                 | January 31, 2021                                        | This lease may be renewed under the terms and conditions as may be agreed upon between the parties, after written notice to renew is given by the LESSEE to the LESSOR at least (30) days prior to the expiration of this lease.                    |
|                           | Kamuning Quezon City Selling Outlet - Foodcrave Marketing, Inc.         | L. Sianghio St. Cor K-3rd St, Kamuning, Quezon City                                   | Rented         | Good      | 26,250.00                                                 | March 31, 2022                                          | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | North Fairview 5 Quezon City Selling Outlet - Foodcrave Marketing, Inc. | Block 72 Lot 24 Phase 8, Dollar St., North Fairview 5, Quezon City                    | Rented         | Good      | 12,631.58                                                 | April 26, 2021                                          | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | Project 8 Quezon City Selling Outlet - Foodcrave Marketing, Inc.        | No. 38-A Grants cor. GSIS Ave, GSIS Village, Brgy. Sangandaan, Project 8, Quezon City | Rented         | Good      | 15,789.47                                                 | May 21, 2022                                            | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |
|                           | Commonwealth Quezon City Selling Outlet - Foodcrave Marketing, Inc.     | Katuparan St., Brgy. Commonwealth, Quezon City                                        | Rented         | Good      | 15,789.47                                                 | August 31, 2021                                         | Continuing unless terminated and agreed by both parties                                                                                                                                                                                             |

| Company Name / Subsidiary |                                                                                     | Address                                                                         | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                                                                                                                     |
|---------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Concepcion Uno Marikina City Selling Outlet - Foodcrave Marketing, Inc.             | 783 J Rizal St., Concepcion Uno, Marikina City                                  | Rented         | Good      | 12,631.58                                                 | November 30, 2021           | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Tanong Marikina City Selling Outlet - Foodcrave Marketing, Inc.                     | 199 A Bonifacio Ave, Tanong, Marikina City                                      | Rented         | Good      | 15,789.47                                                 | June 14, 2021               | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Concepcion Uno Marikina City Selling Outlet - Foodcrave Marketing, Inc.             | 32 Bayan Bayanan Ave. Concepcion Uno, Marikina City                             | Rented         | Good      | 21,052.63                                                 | August 31, 2021             | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Bicutan Taguig City Selling Outlet - Foodcrave Marketing, Inc.                      | Blk 184 Lot 10 Purok 1A, Central Bicutan, Taguig City                           | Rented         | Good      | 26,315.79                                                 | February 28, 2021           | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | New Lower Bicutan Taguig City Selling Outlet - Foodcrave Marketing, Inc.            | 15 M.L. Quezon St., Purok 1 New Lower Bicutan, Taguig City                      | Rented         | Good      | 26,315.79                                                 | December 31, 2022           | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Pinagsama Taguig City Selling Outlet - Foodcrave Marketing, Inc.                    | Barretto Bldg, Phase 2, Pinagsama, Taguig City                                  | Rented         | Good      | 28,421.05                                                 | April 04, 2022              | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | South Signal Village Taguig City Selling Outlet - Foodcrave Marketing, Inc.         | #17 Luzon St., South Signal Village, Taguig City                                | Rented         | Good      | 30,000.00                                                 | June 04, 2022               | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | San Dionisio Parañaque City Selling Outlet - Foodcrave Marketing, Inc.              | Buenaventura St. cor. Quirino Ave, San Dionisio, Parañaque City                 | Rented         | Good      | 15,789.47                                                 | January 31, 2021            | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Sampaloc Manila Selling Outlet - Foodcrave Marketing, Inc.                          | 675 M. Dela Fuente St., Zone 044, Brgy. 449, Sampaloc, Manila                   | Rented         | Good      | 35,000.00                                                 | March 31, 2022              | The LESSEE shall be given priority by the LESSOR to renew the lease against other prospective tenants, PROVIDED, that the LESSEE shall give (30) days advance notice of its intention to extend or renew this Contract before the expiry date. |
|                           | Tondo Manila Selling Outlet - Foodcrave Marketing, Inc.                             | 2551 Pinoy St., Balut, Brgy. 146 Zone 12, Tondo, Manila                         | Rented         | Good      | 26,315.79                                                 | March 31, 2022              | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Zone 17 Tondo Manila Selling Outlet - Foodcrave Marketing, Inc.                     | 1146 R Papa St., Brgy. 187, Zone 17, Tondo, Manila                              | Rented         | Good      | 17,894.74                                                 | July 31, 2021               | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Rizal Ave. Manila Selling Outlet - Foodcrave Marketing, Inc.                        | LRT1 Abad Santos Station, Rizal Ave. Manila                                     | Rented         | Good      | 15,000.00                                                 | October 21, 2021            | Renewable upon agreement of both parties                                                                                                                                                                                                       |
|                           | Putatan Muntinlupa City Selling Outlet - Foodcrave Marketing, Inc.                  | Beside Caltex National Road, Brgy. Putatan, Muntinlupa City                     | Rented         | Good      | 21,052.63                                                 | March 31, 2022              | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Almanza Uno, Las Piñas City Selling Outlet - Foodcrave Marketing, Inc.              | L6 #26 Pilar Road Almanza Uno, Las Piñas City                                   | Rented         | Good      | 13,684.21                                                 | January 14, 2021            | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Maybunga Pasig City Selling Outlet - Foodcrave Marketing, Inc.                      | 78 Dr. Sixto Antonio Ave, Maybunga, Pasig City                                  | Rented         | Good      | 26,315.79                                                 | April 04, 2021              | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Rosario Pasig City Selling Outlet - Foodcrave Marketing, Inc.                       | 78A ECM Bldg, Dr. Sixto Ave, Rosario, Pasig City                                | Rented         | Good      | 15,789.47                                                 | June 14, 2021               | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Navotas City Selling Outlet - Foodcrave Marketing, Inc.                             | 1438 M. Naval St, Tangos North District II, Navotas City                        | Rented         | Good      | 13,684.21                                                 | June 30, 2021               | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Brgy. Dalandanan Dist. I Valenzuela City Selling Outlet - Foodcrave Marketing, Inc. | 302 G. Lazaro St., Mc Arthur Highway, Brgy. Dalandanan Dist. I, Valenzuela City | Rented         | Good      | 13,684.21                                                 | May 31, 2022                | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Tipas Taguig City Selling Outlet - Foodcrave Marketing, Inc.                        | 590-D Tipas Town Center, Lot 2839, HR Capistrano St., Tipas, Taguig City        | Rented         | Good      | 11,214.96                                                 | August 27, 2021             | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | Camarin Caloocan City Selling Outlet - Foodcrave Marketing, Inc.                    | Area D, 7770 Ilang Ilang St. (Zapote St.) Camarin, Caloocan City                | Rented         | Good      | 21,052.63                                                 | August 04, 2021             | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |
|                           | San Juan Taytay Rizal Selling Outlet - Foodcrave Marketing, Inc.                    | Velasquez St., Brgy San Juan, Taytay, Rizal                                     | Rented         | Good      | 14,000.00                                                 | April 30, 2022              | Continuing unless terminated and agreed by both parties                                                                                                                                                                                        |

| Company Name / Subsidiary |                                                                            | Address                                                                                                          | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | San Juan Taytay Rizal Selling Outlet - Foodcrave Marketing, Inc.           | Cuatro Cantos Rizal Ave., Brgy. San Juan, Taytay, Rizal                                                          | Rented         | Good      | 15,789.47                                                 | March 31, 2021                                          | This lease may be extended upon the mutual agreement of the parties atleast (30) calendar days prior to the expiration of the lease. Failure of the LESSEE to initiate negotiations for the renewal of the lease thirty (30) days preceding the expiry thereof shall give the LESSOR the right to show the Leased Premises to other prospective lessees.                    |
|                           | Cainta Rizal Selling Outlet - Foodcrave Marketing, Inc.                    | CRV Bldg, F.P. Felix Ave. Cor. Karangalan Drive, Gate 2 PH 1, Karangalan Village, Brgy San Isidro, Cainta, Rizal | Rented         | Good      | 40,527.00                                                 | April 04, 2021                                          | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Cabuyao Laguna Selling Outlet - Foodcrave Marketing, Inc.                  | #77 Brgy. San Isidro, Cabuyao, Laguna                                                                            | Rented         | Good      | 10,526.32                                                 | Continuing unless terminated and agreed by both parties | Renewable upon mutual written agreement of the parties                                                                                                                                                                                                                                                                                                                      |
|                           | Calamba Laguna Selling Outlet - Foodcrave Marketing, Inc.                  | 173 Mary Help of Christian St., Calamba City, Laguna                                                             | Rented         | Good      | 15,789.47                                                 | November 30, 2021                                       | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Cabuyao Laguna City Selling Outlet - Foodcrave Marketing, Inc.             | J.P. Rizal St., Brgy Uno Cabuyao, Laguna                                                                         | Rented         | Good      | 26,315.79                                                 | February 28, 2021                                       | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | San Juan Calamba City Laguna Selling Outlet - Foodcrave Marketing, Inc.    | #74 Brgy. San Juan, Calamba City, Laguna                                                                         | Rented         | Good      | 10,526.32                                                 | March 31, 2022                                          | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Parian Calamba City Laguna Selling Outlet - Foodcrave Marketing, Inc.      | Brgy. Parian, Calamba City, Laguna                                                                               | Rented         | Good      | 15,789.47                                                 | May 31, 2021                                            | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Sta. Cruz Laguna Selling Outlet - Foodcrave Marketing, Inc.                | 1453 P. Guevarra Ave, Brgy. Poblacion IV, Sta. Cruz, Laguna                                                      | Rented         | Good      | 15,789.47                                                 | May 31, 2021                                            | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Los Baños Laguna Selling Outlet - Foodcrave Marketing, Inc.                | 6947 Brgy. San Antonio, Los Baños, Laguna                                                                        | Rented         | Good      | 21,052.63                                                 | August 31, 2021                                         | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Cabuyao City Laguna Selling Outlet - Foodcrave Marketing, Inc.             | 151 Brgy. Pulo National Highway, Cabuyao City, Laguna                                                            | Rented         | Good      | 10,526.32                                                 | June 30, 2021                                           | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Banay-Banay Cabuyao City Laguna Selling Outlet - Foodcrave Marketing, Inc. | Brgy. Banay-Banay National Hi-way Cabuyao City Laguna                                                            | Rented         | Good      | 20,000.00                                                 | September 30, 2021                                      | Renewable upon agreement of both parties                                                                                                                                                                                                                                                                                                                                    |
|                           | GMA Cavite Selling Outlet - Foodcrave Marketing, Inc.                      | Blk 3, Lot 15, Congressional Rd, San Gabriel, GMA, Cavite                                                        | Rented         | Good      | 31,578.95                                                 | April 15, 2021                                          | Continuing unless terminated and agreed by both parties                                                                                                                                                                                                                                                                                                                     |
|                           | Bacoar Cavite Selling Outlet - Foodcrave Marketing, Inc.                   | Lot 7 Blk 3, PH5, Gawaran Ave, Springville Heights, Molino 7, Bacoar Cavite                                      | Rented         | Good      | 10,526.32                                                 | May 31, 2021                                            | Upon the "9th" month of the contract the LESSEE must notify the LESSOR whether they want to extend the Term. Both parties must agree on the terms before contract extension is to be executed. If the lessee does not opt to extend, the LESSEE is given one week after the expiration of Contract to clear out, vacate and remove its fixtures inside the Leased Premises. |
|                           | Bacoar Cavite Selling Outlet - Foodcrave Marketing, Inc.                   | 6 Aniban IV, Bacoar, Cavite                                                                                      | Rented         | Good      | 12,631.58                                                 | January 31, 2021                                        | the contract may be renewed at LESSEE's option upon written agreement of the parties, after written notice to renew is given by LESSEE or LESSOR atleast (30) days before the expiry date.                                                                                                                                                                                  |

| Company Name / Subsidiary |                                                  | Address                                                                                                                | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                                                                                                                                        |
|---------------------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Sto. Domingo Laguna Selling Outlet - FMI         | Orodoveza Business Center, Brgy Sto Domingo Bay, Laguna                                                                | Rented         | Good      | 21,052.63                                                 | October 31, 2021            | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | San Isidro Gals Quezon City Selling Outlet - FMI | 1 Bayani St. Brgy. San Isidro Gals Quezon City                                                                         | Rented         | Good      | 10,000.00                                                 | January 31, 2022            | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Kamuning Quezon City Selling Outlet - FMI        | L. Sianghio St., cor. K-3rd St., Kamuning Quezon City                                                                  | Rented         | Good      | 30,000.00                                                 | March 31, 2022              | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Tondo Manila Selling Outlet - FMI                | 2805 Juan Luna St. Gagalangin, Tondo, Manila                                                                           | Rented         | Good      | 10,000.00                                                 | November 30, 2021           | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Cabuyao Laguna Selling Outlet - FMI              | Unit 2, #208 Brgy. Mamatid Cabuyao Laguna                                                                              | Rented         | Good      | 8,000.00                                                  | January 14, 2022            | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Imus Cavite Selling Outlet - FMI                 | Unit G Adonis M. Gonzales Commercial Stalls Blk11 Lot1 Woodsite I Bahayang Pag-as Subd., Pasong Buaya II, Imus, Cavite | Rented         | Good      | 18,000.00                                                 | January 31, 2023            | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Bagong Barrio Caloocan City Selling Outlet - FMI | 135 Malolos Ave. Bagong Barrio, Caloocan City                                                                          | Rented         | Good      | 15,789.47                                                 | January 04, 2023            | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | San Miguel Avenue Selling Outlet - FMI           | 40 San Miguel Avenue, Ortigas Center, Mandaluyong City                                                                 | Rented         | Good      | 46,249.80                                                 | November 14, 2024           | Renewable upon agreement of both parties                                                                                                                                                                                                                          |
|                           | Marikina Sales Office - FMI                      | Liwasang Kalayan St., Marikina Heights, Marikina City                                                                  | Rented         | Good      | 30,250.00                                                 | December 31, 2024           | If lessee intends to renew the lease, it shall inform Lessor in writing 180 days prior to expiration of contract of such intention setting forth its offer to renew with such rental rates for the lessor to consider                                             |
|                           | San Roque Antipolo Sales Office - FMI            | GF C&B Circle Mall, Cristmar Aveneue cor. L. Sumulong Circle., Brgy. San Roque, Antipolo City                          | Rented         | Good      | 22,500.00                                                 | February 28, 2025           | If lessee intends to renew the lease, it shall inform Lessor in writing 90 days prior to expiration of contract of such intention setting forth its offer to renew with such rental rates for the lessor to consider                                              |
|                           | San Juan Sales Office - FMI                      | Dover Hill condominium, Mabini Corner Ortega & Pilar Street, Addition Hills, San Juan City                             | Rented         | Good      | 20,247.24                                                 | September 24, 2025          | Either party may serve a written request for renewal on the other party within ninety (90) days prior to the expiration of the Lease Period; provided that the party, upon whom such notice is served, shall NOT be obliged to agree to the renewal of the lease. |
|                           | Calamba Laguna Sales Office - FMI                | 1-D along Provincial Road Barangay Parian, Calamba City, Laguna                                                        | Rented         | Good      | 43,100.00                                                 | February 15, 2021           | Upon expiration of this Contract, it is understood that the LESSEE shall peacefully vacate and return the Leased Premises to the LESSOR pursuant to Section 242 hereof.                                                                                           |
|                           | Sucat Parañaque Sales Office - FMI               | Dr. A Santos Avenue, San Antonio, Sucat Parañaque                                                                      | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |
|                           | Tres Las Piñas Sales Office - FMI                | Lot 1&2 J. Aguilar Avenue Talon Tres Las Pinas                                                                         | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |
|                           | Bicutan Parañaque Sales Office - FMI             | West Service Road Bicutan Parañaque                                                                                    | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |
|                           | Zapote Road Las Piñas Sales Office - FMI         | Alabang Zapote Road Las Pinas City                                                                                     | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |
|                           | Quezon City Sales Office - FMI                   | Petron La Vista, 365 Katipunan Ave., Quezon City                                                                       | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |
|                           | C5 Sales Office - FMI                            | 100 Eulogio Rodriguez Jr. Ave, Pasig City                                                                              | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                   |



| Company Name / Subsidiary |                                                                                       | Address                                                                                                                            | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated)                                                                             | Expiry of Lease<br>Contract                                                                 | Terms of Renewal / Options                                               |
|---------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
|                           | <b>Sales Office and Cold Storage/Laboratory/Warehouse</b>                             |                                                                                                                                    |                |           |                                                                                                                                       |                                                                                             |                                                                          |
|                           | Pangasinan Office, Cold Storage, Processing Plang, Laboratory and Warehouse - Poultry | GTL Compound, San Vicente, San Jacinto, Pangasinan, 2431                                                                           | Rented         | Good      | 25,000.00 (Office)<br>1,304,469.50 (Processing Plant, Cold Storage & Holding Area)<br>30,745.45 (Laboratory)<br>40,000.00 (Warehouse) | 30-Jun-2021 (Office, Warehouse)<br>31-Dec-2023 (Processing Plant, Cold Storage, Laboratory) | Renewable every 3 years                                                  |
|                           | <b>Warehouse</b>                                                                      |                                                                                                                                    |                |           |                                                                                                                                       |                                                                                             |                                                                          |
|                           | AFSI-Managed Warehouses - Feeds                                                       | 1st Industrial Park Zamboanga City Special Economic Zone Authority Sitio San Ramon, Brgy. Talisayan, Zamboanga                     | Rented         | Good      | 269,010.00                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | Bulacan Warehouse - San Miguel Mills, Inc.                                            | Baliuag, Bulacan                                                                                                                   | Rented         | Good      | Jan-Jun: 103,818.00<br>Jul-Dec: 114,199.80                                                                                            | August 31, 2021                                                                             | Renewable upon mutual written agreement of the parties                   |
|                           | LSL Multi-Serve-Managed Warehouses - Feeds                                            | Bay 6 Everland Agri Corp., Km. 12, Sasa, Davao City; Km. 11, Sasa, Davao                                                           | Rented         | Good      | 544,000.00                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | Isabela Warehouse - Feeds                                                             | Bgry. Mabini, Alicia Isabela                                                                                                       | Rented         | Good      | 562,500.00                                                                                                                            | Continuing unless terminated and agreed by both parties                                     | Renewable upon mutual written agreement of the parties                   |
|                           | Pangasinan Warehouse - Feeds                                                          | Carmay East, Rosales, Pangasinan                                                                                                   | Rented         | Good      | 1,249,792.00                                                                                                                          | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | Pangasinan Warehouse - Feeds                                                          | Carmen East, Rosales, Pangasinan                                                                                                   | Rented         | Good      | 1,283,935.29                                                                                                                          | Continuing unless terminated and agreed by both parties                                     | Renewable upon mutual written agreement of the parties                   |
|                           | MMIOE-Managed Warehouses - Feeds                                                      | Diversion Rd., Buhangin, Davao City; Km 10, Sasa, Davao City                                                                       | Rented         | Good      | 1,021,540.00                                                                                                                          | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | SMCSL-Managed Warehouses - Feeds                                                      | Manila; Bataan; Batangas; Camarines Sur; Cebu; Iloilo; Bacolod; Cagayan de Oro; Ozamiz; Bukidnon; General Santos; Zamboanga; Davao | Rented         | Good      | 28,868,349.32                                                                                                                         | December 31, 2022                                                                           | Renewable upon mutual agreement of both parties                          |
|                           | D Meter-Managed Warehouses - Feeds                                                    | Cristo Rey Capas, Tarlac 2315; Brgy Bungad, SFDM, Quezon City                                                                      | Rented         | Good      | 1,558,295.33                                                                                                                          | June 30, 2021                                                                               | Renewable every three years                                              |
|                           | Tarlac Warehouse - Feeds                                                              | Mabini, Moncada, Tarlac                                                                                                            | Rented         | Good      | 298,675.00                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | Pangasinan Warehouse - Feeds                                                          | Nancayasan, Urdaneta, Pangasinan                                                                                                   | Rented         | Good      | 284,400.00                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | Camarines Sur Warehouse - Feeds                                                       | Santiago, Pili, Camarines Sur                                                                                                      | Rented         | Good      | 221,785.71                                                                                                                            | March 31, 2021                                                                              | Renewable every month                                                    |
|                           | Isabela Warehouse - Feeds                                                             | Sinabbaran, Echague, Isabela                                                                                                       | Rented         | Good      | 1,393,479.80                                                                                                                          | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | La Union Warehouse - Feeds                                                            | Taboc, San Juan, La Union                                                                                                          | Rented         | Good      | 345,446.43                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |
|                           | South Cotabato Warehouse - Poultry                                                    | Tumbler, Polomolok South Cotabato                                                                                                  | Rented         | Good      | 612,919.55                                                                                                                            | December 31, 2020                                                                           | Renewable upon mutual written agreement of the parties (Ongoing renewal) |



| Company Name / Subsidiary |                                                                        | Address                                                      | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                              |
|---------------------------|------------------------------------------------------------------------|--------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Pangasinan Warehouse - Feeds                                           | Urdaneta, Pangasinan                                         | Rented         | Good      | 1,124,800.00                                              | December 31, 2020                                       | Renewable upon mutual written agreement of the parties<br>(Ongoing renewal)                                                                                             |
|                           | Davao Warehouse - San Miguel Integrated Sales                          | Purok 9 KM 20 Tibungco, Davao City                           | Rented         | Good      | 537,811.21                                                | March 31, 2021                                          | Renewable upon mutual agreement of both parties                                                                                                                         |
|                           | Mandaluyong Warehouse - Feeds                                          | 979 C. Castaneda Street, Mandaluyong City Metro Manila       | Rented         | Good      | 160,000.00                                                | June 30, 2021                                           | Renewable every year                                                                                                                                                    |
|                           | Camarines Sur Warehouse - Feeds                                        | Brgy. San Jose, Pili, Camarines Sur                          | Rented         | Good      | 201,600.00                                                | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                    |
|                           | Cebu Warehouse - San Miguel Integrated Sales                           | G. Ouano Street, Brgy. Opao, Mandaue City                    | Rented         | Good      | 1,206,923.20                                              | March 31, 2021                                          | Renewable upon mutual agreement of both parties                                                                                                                         |
|                           | Parañaque Warehouse - AIC, SMIS and Great Food Solutions               | Pacific Coast Plaza Building, 1St Villamor Street, Parañaque | Rented         | Good      | 31,586.10 (AIC)<br>162,586.00 (SMIS)<br>49,651.00 (GFS)   | December 31, 2024                                       | Mutually be agreed upon between the parties.                                                                                                                            |
|                           | Iloilo Warehouse - Poultry                                             | Cabugao Norte, Sta. Barbara, Iloilo                          | Rented         | Good      | 93,409.59                                                 | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                    |
|                           | General Santos Warehouse - Feeds                                       | Hadano Avenue, Brgy. Labangal, General Santos City           | Rented         | Good      | 1,893,375.00                                              | April 30, 2021                                          | Renewable every year                                                                                                                                                    |
|                           | Tarlac Warehouse - Feeds                                               | Brgy. Estrada Capas, Tarlac                                  | Rented         | Good      | 944,864.29                                                | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                    |
|                           | Mandaue Warehouse - SMFI - AIC                                         | M.L. Quezon St., Casuntingan, Mandaue City                   | Rented         | Good      | 37,315.04                                                 | October 31, 2022                                        | Renewable every 3 years                                                                                                                                                 |
|                           | Pangasinan Warehouse - SMFI -Feeds                                     | San Nicolas, Villasis, Pangasinan                            | Rented         | Good      | 163,200.00                                                | December 31, 2020                                       | Renewable upon mutual agreement of both parties<br>(Ongoing renewal)                                                                                                    |
|                           | Bulacan Warehouse - SMIS                                               | Rosas Norte, Brgy Saluysoy, Meycauyan, Bulacan               | Rented         | Good      | 1,788,007.61                                              | June 30, 2021                                           | Renewable upon mutual agreement of both parties                                                                                                                         |
|                           | Navotas Warehouse - Poultry                                            | Lapu-Lapu Ave. cor. Northbay Blvd., Navotas City             | Rented         | Good      | 6,514,420.00                                              | September 30, 2021                                      | Renewable upon the expiry of its contract term for the like period(s) under the same terms and conditions, except as may be otherwise agreed by the parties in writing. |
|                           | San Fernando Warehouse - Feeds                                         | San Vicente, San Fernando, La Union                          | Rented         | Good      | 342,426.79                                                | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of both parties                                                                                                                         |
|                           | San Fernando Warehouse - Feeds                                         | Rizal, Moncada, Tarlac                                       | Rented         | Good      | 470,383.20                                                | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of both parties                                                                                                                         |
|                           | Laguna Warehouse - SMFI - Poultry                                      | Denson Whse, Brgy Parian, Calamba, Laguna                    | Rented         | Good      | 141,490.00                                                | July 31, 2021                                           | Renewable every 5 years                                                                                                                                                 |
|                           | <b>Others (Blast Freezing Facility/Selling Station/Slaughterhouse)</b> |                                                              |                |           |                                                           |                                                         |                                                                                                                                                                         |
|                           | Pampanga Selling Station -Meats                                        | 888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga         | Rented         | Good      | 58,000.00                                                 | June 30, 2024                                           | Renewable every 5 years                                                                                                                                                 |

| Company Name / Subsidiary |                                                                                                                 | Address                                                                   | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                   |
|---------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------------------------|
| <b>PACKAGING BUSINESS</b> |                                                                                                                 |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | <b>A. DOMESTIC</b>                                                                                              |                                                                           |                |           |                                                           |                             |                                                                                              |
| <b>1</b>                  | <b>SAN MIGUEL YAMAMURA PACKAGING CORPORATION</b>                                                                |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | SMYPC Main Office, SMYPC Trading and SMYPC Contract Packaging                                                   |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Building / Office Space                                                                                         | San Miguel Properties Centre, Saint Francis St.,<br>Mandaluyong City      | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Rightpak Plant, SMYPC Canlubang PET & Caps Plant, SMYPC MCLP Canlubang Plant and SMYPC Leasing Operations |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Land                                                                                                            | Canlubang Industrial Estate, Canlubang, Laguna                            | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Cebu Beverage Packaging Plant, SMYPC Cebu Glass Plant and SMYPC MCLP Mandaue Plant                        |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Land                                                                                                            | SMC Mandaue Complex, Hi-way, Tipolo, Mandaue City,<br>Cebu                | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Cebu Beverage Packaging Plant & SMYPC Cebu Glass Plant                                                    |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Warehouse                                                                                                       | SMC Wharf, Tipolo, Mandaue City, Cebu                                     | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Cebu Glass Plant                                                                                          |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Warehouse                                                                                                       | Quano Wharf, Mandaue City                                                 | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | Warehouse                                                                                                       | Tabok, Mandaue City                                                       | Rented         | Good      | 1,053,360.00                                              | November 22, 2021           | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | Sitio Bangkerohan, Tayud, Consolacion                                     | Rented         | Good      | 453,065.00                                                | July 31, 2021               | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | Tayud, Consolacion                                                        | Rented         | Good      | 680,240.00                                                | June 30, 2021               | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | CLD Ouano Wharf, Mandaue City, Cebu                                       | Rented         | Good      | 215,000.00                                                | June 30, 2021               | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | Mega Warehouse, SMC Complex, Mandaue City                                 | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC San Fernando Bev. Packaging Plant                                                                         |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Land and Warehouse                                                                                              | Brgy. Maimpis, City of San Fernando, Pampanga (Gate<br>2, SMC PET Plant)  | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Pet Recycling Plant and SMYPC MCLP San Fernando Plant                                                     |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Land                                                                                                            | SMC San Fernando Complex, Quebiauan, San<br>Fernando City                 | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | SMYPC Manila Glass Plant                                                                                        |                                                                           |                |           |                                                           |                             |                                                                                              |
|                           | Land                                                                                                            | Muelle dela Industria St., Binondo, Manila City                           | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | Warehouse                                                                                                       | San Fernando Brewery, San Fernando, Pampanga                              | Owned          | Good      |                                                           |                             |                                                                                              |
|                           | Warehouses                                                                                                      | No. 35 Calle Malusak, San Pablo, Malolos City, Bulacan                    | Rented         | Good      | 727,005.00                                                | April 01, 2021              | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouses                                                                                                      | No.10 T. Santiago St., Plastic City Compound,<br>Canumay, Valenzuela City | Rented         | Good      | 172,125.00                                                | December 31, 2021           | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | Sitio Torres, Sta. Cuz, Porac, Pampanga                                   | Rented         | Good      | 176,446.57                                                | December 31, 2021           | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | 162 Balite, San Fernando, Pampanga                                        | Rented         | Good      | 595,000.00                                                | April 01, 2021              | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |
|                           | Warehouse                                                                                                       | Alliance Textiles Mills Barangay Banay Banay,<br>Cabuyao, Laguna          | Rented         | Good      | 526,150.00                                                | December 31, 2021           | Renewable for a period in accordance with<br>the mutual written agreement of both<br>parties |

| Company Name / Subsidiary |                                            | Address                                                            | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                              |
|---------------------------|--------------------------------------------|--------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------|
|                           | Warehouse                                  | LIIP-PEZA, Mamlasan, Biñan, Laguna                                 | Rented         | Good      | 1,239,444.64                                              | March 30, 2021              | Renewable for a period in accordance with the mutual written agreement of both parties, With additional PR for 6 months |
|                           | SMYPC Glass Business Office                |                                                                    |                |           |                                                           |                             |                                                                                                                         |
|                           | Land                                       | Barrio Halayhay, Tanza, Cavite                                     | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | SMYPC Manila Plastics Plant                |                                                                    |                |           |                                                           |                             |                                                                                                                         |
|                           | Warehouses                                 | #30, #32, #33 and #34 T. Santiago Street, Canumay, Valenzuela City | Rented         | Good      | 1,271,455.66                                              | March 31, 2021              | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Warehouse                                  | #276 Boontown Industrial Park Brgy. Tambobong, Bocaue , Bulacan    | Rented         | Good      | 512,727.24                                                | September 30, 2021          | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Warehouse                                  | Pulang Lupa, Valenzuela                                            | Rented         | Good      | 1,066,682.10                                              | March 31, 2022              | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Warehouse                                  | Quano Wharf, Mandaue City                                          | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | SMYPC MPP Cebu Operations                  |                                                                    |                |           |                                                           |                             |                                                                                                                         |
|                           | Warehouse                                  | Mandaue Cebu                                                       | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | Warehouse                                  | CBPP, SMC Complex, Mandaue City                                    | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | Warehouse                                  | Sitio Bangkerohan, Tayud, Consolacion                              | Rented         | Good      | 800,000.00                                                | August 01, 2021             | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | SMYPC SMY Glass Plant                      |                                                                    |                |           |                                                           |                             |                                                                                                                         |
|                           | Land                                       | Km 27, Aguinaldo Highway, Imus, Cavite                             | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | Land & Warehouse                           | Canlubang Industrial Estate, Canlubang, Laguna                     | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | Common Goal Warehouse                      | 7001 Aguinaldo Highway, Brgy. Salitran, Dasmariñas City            | Rented         | Good      | 1,619,005.08                                              | December 31, 2021           | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Warehouse                                  | Quezon Road, San Simon, Pampanga                                   | Rented         | Good      | 2,125,700.00                                              | October 31, 2021            | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Welbourne Warehouse                        | Blk02 Lot31, Welborn Industrial Park, BRGY Bancal, Carmona Cavite  | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | Warehouse                                  | Tagoloan, Misamis Oriental                                         | Owned          | Good      |                                                           |                             |                                                                                                                         |
|                           | SMYPC Logistics Services                   |                                                                    |                |           |                                                           |                             |                                                                                                                         |
|                           | Warehouse                                  | Alliance Textiles Mills Barangay Banay Banay, Cabuyao, Laguna      | Rented         | Good      | 2,002,600.00                                              | May 31, 2022                | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
|                           | Warehouse                                  | Alliance Textiles Mills Barangay Banay Banay, Cabuyao, Laguna      | Rented         | Good      | 273,020.00                                                | August 31, 2021             | Renewable for a period in accordance with the mutual written agreement of both parties                                  |
| 2                         | <b>SMC YAMAMURA FUSO MOLDS CORPORATION</b> | Governor Dr., Bo. De Fuego, Bgy. San Francisco, Gen. Trias, Cavite | Owned          | Good      |                                                           |                             |                                                                                                                         |

| Company Name / Subsidiary |                                                                                                        | Address                                                                                              | Rented / Owned                                                                                                                           | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                             |
|---------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------------------|
| 3                         | MINDANAO CORRUGATED<br>FIBREBOARD, INC.                                                                |                                                                                                      |                                                                                                                                          |           |                                                           |                             |                                                                                        |
|                           | Land                                                                                                   | Km 12 Sasa, Davao City                                                                               | Owned                                                                                                                                    | Good      |                                                           |                             |                                                                                        |
|                           | Warehouses                                                                                             | Sitio Ilang, Brgy. Tibungco, Davao City                                                              | Rented                                                                                                                                   | Good      | 851,330.20                                                | September 30, 2021          | Renewable for a period in accordance with the mutual written agreement of both parties |
|                           | Warehouses                                                                                             | Brgy. Casinglot, Tagoloan, Misamis Oriental                                                          | Rented                                                                                                                                   | Good      | 339,045.00                                                | March 31, 2021              | Renewable for a period in accordance with the mutual written agreement of both parties |
|                           | Warehouses                                                                                             | National Highway Casinglot, Tagoloan, Misamis Oriental                                               | Rented                                                                                                                                   | Good      | 225,000.00                                                | September 30, 2021          | One year contract only. End of term per contract is September 30, 2021.                |
| 4                         | CAN ASIA, INC.                                                                                         |                                                                                                      |                                                                                                                                          |           |                                                           |                             |                                                                                        |
|                           | Land                                                                                                   | Bgy. San Francisco de Malabon, Gen. Trias, Cavite                                                    | Owned                                                                                                                                    | Good      |                                                           |                             |                                                                                        |
|                           | B. INTERNATIONAL                                                                                       |                                                                                                      |                                                                                                                                          |           |                                                           |                             |                                                                                        |
| 5                         | SAN MIGUEL YAMAMURA<br>PACKAGING INTERNATIONAL LTD.<br>AND SAN MIGUEL YAMAMURA<br>GLASS (VIETNAM) LTD. | 9/F Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, N.T. Hongkong, PRC                | Owned by San Miguel Brewery Hong Kong Ltd (SMBHK) (Owner is SMBHK, Lessee is Neptunia Corporation Limited (NCL) and rent payable by NCL) | Good      |                                                           |                             |                                                                                        |
| 6                         | ZHAOQING SAN MIGUEL<br>YAMAMURA GLASS COMPANY LTD.                                                     |                                                                                                      |                                                                                                                                          |           |                                                           |                             |                                                                                        |
|                           | Plant                                                                                                  | 12 North Avenue, Housha St., Zhaoqing City Guangdong Province, PRC                                   | Land Use Rights                                                                                                                          | Good      |                                                           |                             |                                                                                        |
|                           | Warehouse                                                                                              | Duanzhou Science and Technology Industrial Area, Zhaoqing City                                       | Rented                                                                                                                                   | Good      | 186,580.83                                                | September 30, 2021          | Renewable for a period in accordance with the mutual written agreement of both parties |
|                           | Warehouse                                                                                              | Duanzhou Science and Technology Industrial Area, Zhaoqing City                                       | Rented                                                                                                                                   | Good      | 600,131.92                                                | October 31, 2022            | Renewable for a period in accordance with the mutual written agreement of both parties |
|                           | Warehouse                                                                                              | The sixth workshop of Xijiang Machinery Factory, Zhaoqing City                                       | Rented                                                                                                                                   | Good      | 37,405.30                                                 | March 31, 2021              | Renewable for a period in accordance with the mutual written agreement of both parties |
| 7                         | FOSHAN SAN MIGUEL YAMAMURA<br>PACKAGING COMPANY LTD.                                                   | 3 Dongdi Road, Junan Township, Guangdong Province, PRC                                               | Land Use Rights                                                                                                                          | Good      |                                                           |                             |                                                                                        |
| 8                         | SAN MIGUEL YAMAMURA<br>HAIPHONG GLASS COMPANY LTD.                                                     | 17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam                                       | Land Use Rights                                                                                                                          | Good      |                                                           |                             |                                                                                        |
| 9                         | SAN MIGUEL YAMAMURA PHU THO<br>PACKAGING COMPANY LTD.                                                  | 1 Le Van Khuong Street, Hiep Thanh Ward, District 12, Ho Chi Minh City, Vietnam                      | Land Use Rights                                                                                                                          | Good      |                                                           |                             |                                                                                        |
| 10                        | SAN MIGUEL YAMAMURA PLASTICS<br>FILMS SDN. BHD.                                                        | No. 172, Jalan Usaha 5, lots 83, 84, 85, 75, 76 Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia | Owned                                                                                                                                    | Good      |                                                           |                             |                                                                                        |
| 11                        | SAN MIGUEL YAMAMURA<br>PACKAGING AND PRINTING SDN.<br>BHD. AND PACKAGING RESEARCH<br>CENTRE SDN. BHD.  | Lot 5078 and 5079, Jalan Jenjarum 28/39, Seksyen 28, 40400 Shah Alam, Selangor Darul Ehsan, Malaysia | Owned                                                                                                                                    | Good      |                                                           |                             |                                                                                        |

| Company Name / Subsidiary |                                                     | Address                                                                                                                                                            | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                      |
|---------------------------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|-------------------------------------------------|
| 12                        | <b>SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD.</b> |                                                                                                                                                                    |                |           |                                                           |                             |                                                 |
|                           | Office Space                                        | Lot 9 and 10, Jalan Usuha 4, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia<br>Lot 4305, Jalan Usaha 8, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia | Owned          | Good      |                                                           |                             |                                                 |
|                           | Plant                                               | Lot 75, Jalan Usaha 5, Ayer Keroh Industrial Estate, 75450 Melaka                                                                                                  | Rented         | Good      | RM20,748.00                                               | December 31, 2021           | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | Lot 4320, Jalan Usaha 6, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia                                                                                      | Rented         | Good      | RM 6,500.00                                               | March 31, 2021              | Renewable upon mutual agreement of both parties |
| 13                        | <b>INSA ALLIANCE SDN. BHD.</b>                      |                                                                                                                                                                    |                |           |                                                           |                             |                                                 |
|                           | Office Space                                        | Plo 64 & Plo 65, Jln Kejuteraan 4, Kaw. Perindustrian, Jln Genuang, 85000 Segamat, Johor.                                                                          | Owned          | Good      |                                                           |                             |                                                 |
|                           | Plant                                               | Plo 64 & Plo 65, Jln Kejuteraan 4, Kaw. Perindustrian, Jln Genuang, 85000 Segamat, Johor.                                                                          | Owned          | Good      |                                                           |                             |                                                 |
|                           | Warehouse                                           | Plo 136, Jln Kejuteraan 4, Kaw. Perindustrian, Jln Genuang, 85000 Segamat, Johor.                                                                                  | Owned          | Good      |                                                           |                             |                                                 |
|                           | Warehouse                                           | Plo 97, Jln Kejuteraan 4, Kaw. Perindustrian, Jln Genuang, 85000 Segamat, Johor.                                                                                   | Rented         | Good      | AUD 2,000.00                                              | August 31, 2021             | Renewable upon mutual agreement of both parties |
| 14                        | <b>SAN MIGUEL YAMAMURA AUSTRALASIA</b>              |                                                                                                                                                                    |                |           |                                                           |                             |                                                 |
|                           | Office                                              | 1 Culverston Road, Minto NSW, Australia                                                                                                                            | Rented         | Good      | AUD 113,841.71                                            | July 31, 2027               | Renewable upon mutual agreement of both parties |
|                           | Production                                          | 21 Huntsmore Road, Minto NSW, Australia (Unit 1)                                                                                                                   | Rented         | Good      | AUD 22,532.72                                             | July 31, 2027 - Unit 1      | Renewable upon mutual agreement of both parties |
|                           | SMYC PTY LTD                                        |                                                                                                                                                                    |                |           |                                                           |                             |                                                 |
|                           | Warehouse                                           | 117-121 Lewis Rd, Knoxfield, Victora                                                                                                                               | Rented         | Good      | AUD 57,792.47                                             | July 31, 2027               | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | Warehouse 5, Acacia Link Industrial Estate, 25 Industrial Crescent, Willawong, Queensland                                                                          | Rented         | Good      | AUD 29,668.10                                             | April 30, 2022              | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | 30-32 Rosberg Rd, Wingfield, South Australia                                                                                                                       | Rented         | Good      | AUD 45,229.63                                             | June 18, 2022               | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | 52 McDowell Street Welshpool, Western Australia                                                                                                                    | Rented         | Good      | AUD 36,093.35                                             | September 30, 2024          | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | 22 Kinta Drive, Beresfield, Newcastle                                                                                                                              | Rented         | Good      | AUD 7,053.91                                              | November 30, 2021           | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | 10-12 Linear Court, Derwent Park, Tasmania                                                                                                                         | Rented         | Good      | AUD 14,691.33                                             | November 16, 2021           | Renewable upon mutual agreement of both parties |
|                           | SMYP PTY LTD                                        |                                                                                                                                                                    |                |           |                                                           |                             |                                                 |
|                           | Plant                                               | 21 Huntsmore Road, Minto NSW, Australia (Unit 2)                                                                                                                   | Rented         | Good      | AUD 20,014.36                                             | July 31, 2027               | Renewable upon mutual agreement of both parties |
|                           | Warehouse                                           | 21 Huntsmore Road, Minto NSW, Australia (Unit 3)                                                                                                                   | Rented         | Good      | AUD 29,107.40                                             | July 31, 2030               | Renewable upon mutual agreement of both parties |
|                           | Plant                                               | 114-118 Talinga Road, Cheltenham, Victora                                                                                                                          | Rented         | Good      | AUD 71,566.13                                             | January 01, 2028            | Renewable upon mutual agreement of both parties |
|                           | Plant                                               | 13-15 Wangara Road, Sandringham, Victoria                                                                                                                          | Rented         | Good      | AUD 45,045.08                                             | November 06, 2022           | Renewable upon mutual agreement of both parties |
|                           | Plant                                               | 160 May Terrace Ottoway, South Australia                                                                                                                           | Rented         | Good      | AUD 77,490.59                                             | October 17, 2026            | Renewable upon mutual agreement of both parties |

| Company Name / Subsidiary    |                                                | Address                                                                                                                    | Rented / Owned                      | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                              |
|------------------------------|------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|---------------------------------------------------------------------------------------------------------|
|                              | Plant                                          | Lionels Vineyard, Payne Road Jindong, Western Australia (Margaret River)                                                   | Rented                              | Good      | AUD 22,590.78                                             | October 04, 2022            | Renewable upon mutual agreement of both parties                                                         |
|                              | Plant                                          | Cnr Sayer and Mandogalup Road, Hope Valley, Western Australia (Perth)                                                      | Rented                              | Good      | AUD 25,166.66                                             | December 31, 2025           | Renewable upon mutual agreement of both parties                                                         |
|                              | Plant                                          | Barrel Store Number 2, Hanwood Estate Winery, Jack McWilliams Road, NSW (Griffith)                                         | Rented                              | Good      | AUD 7,879.77                                              | September 30, 2023          | Renewable upon mutual agreement of both parties                                                         |
|                              | SMYV PTY LTD                                   |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Plant/Office                                   | 34-38 Aldershot Road, Lonsdale South Australia                                                                             | Owned                               | Good      |                                                           |                             |                                                                                                         |
|                              | Barossa Bottling Pty Ltd                       |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Plant/Office                                   | Lot 147, Sturt Highway, Nuriootpa, South Australia                                                                         | Rented                              | Good      | AUD 10,637.72                                             | July 31, 2022               | Renewable upon mutual agreement of both parties                                                         |
|                              | SMYBB Pty Ltd                                  |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Plant/Office                                   | 463-469 & 487-501 Cowra Avenue, Mildura, Victoria                                                                          | Rented                              | Good      | AUD 60,546.57                                             | August 01, 2022             | Renewable upon mutual agreement of both parties                                                         |
|                              | Plant/Office                                   | 503-513 Cowra Avenue, Mildura, Victoria                                                                                    | Rented                              | Good      | AUD 26,514.08                                             | May 16, 2025                | Renewable upon mutual agreement of both parties                                                         |
|                              | SMYJ Pty Ltd                                   |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Plant/Office                                   | 50 Bond Street Mordialloc Victoria                                                                                         | Rented                              | Good      | AUD 24,612.93                                             | July 10, 2023               | Renewable upon mutual agreement of both parties                                                         |
|                              | Plant/Office                                   | 48 Bond Street Mordialloc Victoria                                                                                         | Rented                              | Good      | AUD 19,403.37                                             | July 29, 2025               | Renewable upon mutual agreement of both parties                                                         |
| 15                           | COSPAK LIMITED                                 | 27 Ross Reid Place, East Tamaki, Auckland, New Zealand                                                                     | Rented                              | Good      | NZD 130,368.28                                            | July 31, 2026               | Renewable upon mutual agreement of both parties                                                         |
| 16                           | FOSHAN NANHAI COSPAK PACKAGING COMPANY LIMITED | Beijia Team of Niande Village Committee, Nanfeng Road, Leping Town, Sanshui District, Foshan City, Guangdong Province, PRC | Rented                              | Good      | ¥ 60,262                                                  | October 31, 2023            | Renewable upon mutual agreement of both parties                                                         |
| <b>FUEL AND OIL BUSINESS</b> |                                                |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
| 1                            | PETRON CORPORATION                             |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | <b>Refinery and Powerplant</b>                 |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Petron Bataan Refinery                         | Petron Bataan Refinery, Limay, Bataan                                                                                      | Owned                               | Good      |                                                           |                             |                                                                                                         |
|                              | Power Plant (Units 1, 2, 3 and 4)              | Brgy. Lamao, Limay, Bataan                                                                                                 | Owned                               | Good      |                                                           |                             |                                                                                                         |
|                              | <b>Metro Manila and Manufacturing</b>          |                                                                                                                            |                                     |           |                                                           |                             |                                                                                                         |
|                              | Terminal (Navotas)                             | PFDA CMPD., Navotas, M.M.                                                                                                  | Rented Except Building & Facilities | Good      | 3,173,404.69                                              | Aug 26, 2039                | Renewable upon mutual agreement of both parties                                                         |
|                              | Terminal (Rosario)                             | Gen. Trias, Rosario, Cavite                                                                                                | Rented Except Building & Facilities | Good      | 257,606.37                                                | August 31, 2018             | Renewable upon mutual agreement of both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                              | Terminal (Pandacan)                            | Jesus St., Pandacan, Manila                                                                                                | Rented Except Building & Facilities | Good      | 2,484,715.38                                              | August 31, 2018             | Renewable upon mutual agreement of both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                              | Lube Oil Manufacturing Plant                   | Block 12, 13 and 14 Harbour Centre, North Harbor, Tondo, Manila                                                            | Owned                               | Good      |                                                           |                             |                                                                                                         |
|                              | Airport Installations                          | Laoag Airport Installation, Laoag Airport, Brgy. Araniw, Laoag City                                                        | Rented Except Building & Facilities | Good      | 3,180.00                                                  | October 31, 2029            | Renewable upon mutual agreement of both parties                                                         |
|                              | Airport Installations                          | NAIA Airport Installation (Petron) & JOCASP, JOCASP Compound, NAIA Complex, Pasay City                                     | Rented Except Building & Facilities | Good      | 804,833.47                                                | December 31, 2035           | Renewable at the option of the lessee                                                                   |

| Company Name / Subsidiary |                           | Address                                                                        | Rented / Owned                         | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                                                           | Terms of Renewal / Options                                                                                 |
|---------------------------|---------------------------|--------------------------------------------------------------------------------|----------------------------------------|-----------|-----------------------------------------------------------|---------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
|                           | <b>Luzon Operations</b>   |                                                                                |                                        |           |                                                           |                                                                                       |                                                                                                            |
|                           | Terminal (Palawan)        | Brgy. Masipag, Puerto Princesa City                                            | Rented Except<br>Building & Facilities | Good      | 216,000.00                                                | November 30,2023                                                                      | Renewable at the option of the lessee                                                                      |
|                           | Terminal (Palawan)        | Parola, Brgy. Maunlad, Puerto Princesa City, Palawan                           | Rented Except<br>Building & Facilities | Good      | 4,222.12                                                  | August 31, 2018                                                                       | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                           | Sales Office (Pasacao)    | Sitio Camangui, Brgy. Santa Rosa del Sur, Pasacao,<br>Camarines Sur            | Rented Except<br>Building & Facilities | Good      | Jan - 466,357.50<br>Jun - 489,675.38                      | May 31, 2027                                                                          | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Terminal (Poro)           | Poro Pt.,San Fernando, La Union                                                | Rented Except<br>Building & Facilities | Good      | Jan - 297,020.48<br>Mar - 314,841.71                      | February 28, 2023                                                                     | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Terminal (Poro)           | Poro Pt.,San Fernando, La Union                                                | Rented Except<br>Building & Facilities | Good      | 22,279.97                                                 | August 31, 2018                                                                       | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                           | Terminal (Poro)           | Poro Pt.,San Fernando, La Union                                                | Rented except Building<br>& Facilities | Good      | 25,300.00                                                 | June 01, 2021                                                                         | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Sales Office (Calapan)    | Sixteen Enterprises Compound, Brgy. Masipit, Calapan<br>City, Oriental Mindoro | Rented                                 | Good      | Jan - 25,467.75<br>Jul - 26,741.14                        | June 30, 2022                                                                         | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Sales Office (San Jose)   | Purok Tagumpay 2, Brgy. Caminawit, San Jose,<br>Occidental Mindoro             | Rented                                 | Good      | 17,000.00                                                 | April 30, 2021                                                                        | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Sales Office (Masbate)    | Masbate                                                                        | Rented except Building<br>& Facilities | Good      | 4,759.53                                                  | December 31, 2021                                                                     | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Terminal (Batangas)       | Bo. Mainaga, Mabini, Batangas                                                  | Rented Except<br>Building & Facilities | Good      | 41,987.17                                                 | August 31, 2018                                                                       | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                           | Terminal (Bataan)         | Limay, Bataan                                                                  | Rented Except<br>Building & Facilities | Good      | 1,611.84                                                  | August 31, 2018                                                                       | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)                            |
|                           | Sales Office (Odiongan)   | Brgy Poctoy, Odiongan, Romblon                                                 | Rented                                 | Good      | 67,175.33                                                 | December 31, 2051                                                                     | Renewable at the option of the lessee                                                                      |
|                           | <b>Visayas Operations</b> |                                                                                |                                        |           |                                                           |                                                                                       |                                                                                                            |
|                           | Depot (Amlan)             | Tandayag, Amlan, Negros Oriental                                               | Rented Except<br>Building & Facilities | Good      | 54,851.58                                                 | November 30, 2032                                                                     | Renewable at the option of the lessee                                                                      |
|                           | Terminal (Bacolod)        | Bo. San Patricio, Bacolod City, Negros Occidental                              | Rented Except<br>Building & Facilities | Good      | 79,672.14                                                 | August 31, 2018                                                                       | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal) |
|                           | Terminal (Bacolod)        | Bo. San Patricio, Bacolod City, Negros Occidental                              | Owned                                  | Good      |                                                           |                                                                                       |                                                                                                            |
|                           | Depot (Siquijor Mini BP)  | Candanay Sur, Siquijor                                                         | Owned                                  | Good      |                                                           |                                                                                       |                                                                                                            |
|                           | Terminal (Iloilo)         | Lapuz, Iloilo City                                                             | Rented Except<br>Building & Facilities | Good      | 1,262,518.00                                              | August 31, 2023                                                                       | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Depot (Isabel)            | LIDE, Isabel, Leyte                                                            | Rented Except<br>Building & Facilities | Good      | 256,915.58                                                | Continuing unless<br>terminated and<br>agreed by both<br>parties                      | Renewable upon mutual agreement of<br>both parties                                                         |
|                           | Terminal (Mactan)         | MEPZ, Lapu- lapu City                                                          | Rented Except<br>Building & Facilities | Good      | 780,000 - MCIAA<br>10,218.75 - PEZA                       | December 2045 -<br>MCIAA<br>Continuing unless<br>terminated by both<br>parties - PEZA | Continuing unless terminated by both<br>parties                                                            |



| Company Name / Subsidiary |                            | Address                                                           | Rented / Owned                         | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                                      | Terms of Renewal / Options                                                                                                  |
|---------------------------|----------------------------|-------------------------------------------------------------------|----------------------------------------|-----------|-----------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
|                           | Terminal (Ormoc)           | Bo. Linao, Ormoc City, Leyte                                      | Rented Except<br>Building & Facilities | Good      | 25,283.83                                                 | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                  |
|                           | Terminal (Ormoc)           | Bo. Linao, Ormoc City, Leyte                                      | Rented Except<br>Building & Facilities | Good      | 5,000.00                                                  | May 31, 2025                                                     | Renewable upon mutual agreement of<br>both parties                                                                          |
|                           | Terminal (Roxas)           | Sitio Pook, Brgy. Culasi, Roxas, City                             | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (Tacloban)        | Anibong, Tacloban City                                            | Rented Except<br>Building & Facilities | Good      | PNOC - 14,354.61<br>Domingo Lot - 375,000                 | August 31, 2018<br>January 2, 2039                               | Renewable upon mutual agreement of<br>both parties<br>(Expired in 2018 - With pending court<br>case, Ongoing lease renewal) |
|                           | Depot (Tagbilaran)         | Graham Ave., Tagbilaran, Bohol                                    | Rented Except<br>Building & Facilities | Good      | 4,401.92                                                  | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)                                             |
|                           | Terminal (Mandaue)         | Looc, Mandaue City, Cebu                                          | Rented Except<br>Building & Facilities | Good      | 360,293.37                                                | August 31, 2018<br>March 31, 2028<br>January 1, 2038             | Renewable upon mutual agreement of<br>both parties<br>(Expired in 2018 - With pending court<br>case, Ongoing renewal)       |
|                           | Airport Installations      | Iloilo Airport, Cabatuan, Iloilo City                             | Rented Except<br>Building & Facilities | Good      | 60,200.00                                                 | Continuing unless<br>terminated and<br>agreed by both<br>parties | Terminal has an ongoing application with<br>CAAP Iloilo for a long term contract in Iloilo<br>(20-25 yrs)                   |
|                           | <b>Mindanao Operations</b> |                                                                   |                                        |           |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (Davao)           | Km. 9, Bo. Pampanga, Davao City                                   | Rented Except<br>Building & Facilities | Good      | 158,031.23                                                | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                  |
|                           | Terminal (Bawing)          | Purok Cabu, Bawing, General Santos City                           | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (Iligan)          | Bo. Tomas Cabili, Iligan City, Lanao del Norte                    | Rented Except<br>Building & Facilities | Good      | 9,903.68                                                  | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                  |
|                           | Terminal (Iligan)          | Bo. Tuminobo, Iligan City, Lanao del Norte                        | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (Jimenez)         | Jimenez, Misamis Occidental                                       | Rented Except<br>Building & Facilities | Good      | 200,000.00                                                | December 16, 2024<br>and March 2, 2035                           | Renewable upon mutual agreement of<br>both parties                                                                          |
|                           | Terminal (Nasipit)         | Talisay, Nasipit, Agusan del Norte                                | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (SL Phividec)     | SL Phividec, Mindanao                                             | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                             |
|                           | Terminal (Tagoloan)        | Tagoloan, Misamis Oriental PNOC- 13,836 sq m                      | Rented Except<br>Building & Facilities | Good      | 13,653.54                                                 | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                  |
|                           |                            | Tagoloan, Misamis Oriental - 13,499 sq m.                         | Rented Except<br>Building & Facilities | Good      | 11,083.22                                                 | December 31, 2020                                                | Renewable at the option of the lessee<br>(Ongoing lease renewal)                                                            |
|                           |                            | Tagoloan, Misamis Oriental PHIVIDEDEC/NVRC (FLA)-<br>19,965 sq m. | Rented Except<br>Building & Facilities | Good      | 11,733.13                                                 | February 9, 2034                                                 | Renewable at the option of the lessee                                                                                       |
|                           | Terminal (Zamboanga)       | Bgy. Campo Islam, Lower Calarian, Zamboanga City                  | Rented Except<br>Building & Facilities | Good      | 31,269.35                                                 | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                  |
|                           | Airport Installations      | Laguindingan, Misamis Oriental CAAP- 4000 sq m.                   | Rented Except<br>Building & Facilities | Good      | 201,187.50                                                | March 31, 2040                                                   | Renewable upon mutual agreement of<br>both parties                                                                          |



| Company Name / Subsidiary |                                                         | Address                                                                                                                   | Rented / Owned                         | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                                      | Terms of Renewal / Options                                                                                                           |
|---------------------------|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------|-----------------------------------------------------------|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------|
|                           | Airport Installations                                   | Davao Airport                                                                                                             | Rented Except<br>Building & Facilities | Good      | 32,262.50                                                 | May 31, 2028                                                     | Renewable upon mutual agreement of<br>both parties                                                                                   |
|                           | Airport Installations                                   | Zamboanga International Airport                                                                                           | Rented Except<br>Building & Facilities | Good      | 7,045.00                                                  | November 30, 2029                                                | Renewable at the option of the lessee                                                                                                |
|                           | <b>Gasul Operations</b>                                 |                                                                                                                           |                                        |           |                                                           |                                                                  |                                                                                                                                      |
|                           | Depot (LPG Operation)                                   | Lakandula Drive, brgy. Bonot, Legaspi City                                                                                | Rented Except<br>Building & Facilities | Good      | 43,169.61                                                 | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                           |
|                           | Depot (Gasul - San Fernando)                            | Brgy Dela Paz Norte, San Fernando, Pampanga                                                                               | Rented Except<br>Building & Facilities | Good      | 9,691.29                                                  | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                           |
|                           | Refilling Plant (San Pablo)                             | San Pablo                                                                                                                 | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                                      |
|                           | Terminal (Gasul – Pasig)                                | Bo. Ugong, C5,Pasig, M.M                                                                                                  | Rented Except<br>Building & Facilities | Good      | 955,475.80                                                | August 31, 2018                                                  | Renewable upon mutual agreement of<br>both parties<br>(With pending court case)<br>(Ongoing lease renewal)                           |
| <b>2</b>                  | <b>PETRON MALAYSIA REFINING &amp;<br/>MARKETING BHD</b> |                                                                                                                           |                                        |           |                                                           |                                                                  |                                                                                                                                      |
|                           | <b>Refinery</b>                                         |                                                                                                                           |                                        |           |                                                           |                                                                  |                                                                                                                                      |
|                           | Port Dickson Refinery                                   | Lot 2645 - Lot 2648, 1222, 1593-1595, 1757, 1803,<br>1805, 1836, 1838, 1926-1930 & 2278, Port Dickson,<br>Negeri Sembilan | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                                      |
|                           | Lumut LPP plant                                         | Lot 15636, Lumut Port Industrial Park, Mukim Lumut,<br>Jalan Kampung Acheh, Sitiawan, Perak.                              | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                                      |
|                           | <b>Terminals and Depots</b>                             |                                                                                                                           |                                        |           |                                                           |                                                                  |                                                                                                                                      |
|                           | Port Dickson Terminal                                   | Batu 1.5, Jalan Pantai, 71009 Port Dickson, Negeri<br>Sembilan                                                            | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                                      |
|                           | Bagan Luar Terminal                                     | Lot 95-125, Lot 2327-2338 Section 4 Butterworth,<br>Seberang Perai Utara, Penang                                          | Owned                                  | Good      |                                                           |                                                                  |                                                                                                                                      |
|                           | KLIA Aviation Depot                                     | Forward Fuel Base, Jalan FFB Kuala Lumpur<br>International Airport (KLIA) 64000 Sepang Selangor<br>Darul Ehsan, Malaysia  | Rented                                 | Good      | MYR 8,976.00                                              | Continuing unless<br>terminated and<br>agreed by both<br>parties | Contract automatically renewed on yearly<br>basis unless terminated in accordance with<br>the termination provision in the agreement |
|                           | KVDT- MPP (Tie-in facilities for<br>MPP/KVDT)           | GM 1397 Lot 194 Mukim and Daerah Port Dickson<br>Negeri Sembilan                                                          | Rented Except<br>Building & Facilities | Good      | MYR 6,300                                                 | June 30, 2023                                                    | Renewable upon mutual agreement of<br>both parties                                                                                   |

| Company Name / Subsidiary |                                                          | Address                                                                                           | Rented / Owned                         | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated)      | Expiry of Lease<br>Contract                          | Terms of Renewal / Options                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------|----------------------------------------------------------|---------------------------------------------------------------------------------------------------|----------------------------------------|-----------|----------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3                         | <b>PETRON FUEL INTERNATIONAL SDN BHD</b>                 |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
|                           | Kuantan Terminal                                         | Lot 1863, Mukim Sungai Karang, Tanjung Gelang, Kuantan Port, 26100 Kuantan. PAHANG                | Rented                                 | Good      | Terminal 1<br>MYR 18,983.98<br><br>Terminal 2<br>MYR 17,898.05 | Terminal 1<br>Dec 2027<br><br>Terminal 2<br>Dec 2027 | Current rate is RM12.06 per square meter per year from 1st January 2016 until 31st Dec 2018 and shall be increased by 10% on 1st January 2019 and after every three (3) years thereafter<br><br>Current rate is RM12.06 per square meter per year from 1st January 2018 until 31st Dec 2018 and shall be increased by 10% on 1st January 2019 and after every three (3) years thereafter |
|                           | Pasir Gudang Terminal                                    | Jalan Cecair Satu, Kawasan Perdagangan Bebas, Lembaga Pelabuhan Johor, 81700 Pasir Gudang, Johor. | Rented                                 | Good      | MYR 9,788                                                      | June 2051                                            | An option for renewal for a period of thirty (30) years.<br><br>Note: Revision of assessment fee effective 2017 by Johor Port after approval by MPPG.                                                                                                                                                                                                                                    |
|                           | Westport JV                                              | Terminal Bersama Sdn Bhd, Jeti Petrokimia, Pelabuhan Barat, 49290 Pulau Indah, Selangor           | Rented                                 | Good      | MYR 54,994.50                                                  | Aug 2024                                             | Renewable upon expiry of lease term                                                                                                                                                                                                                                                                                                                                                      |
| 4                         | <b>PETRON OIL (M) SDN BHD</b>                            |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
|                           | Tawau Terminal                                           | Jalan Tg Batu Laut, 91000 Tawau, Sabah                                                            | Rented Except<br>Building & Facilities | Good      | MYR .125<br>(Yearly Rental - MYR 1.50)                         | October 2902                                         | No option stated in the agreement                                                                                                                                                                                                                                                                                                                                                        |
|                           | Sandakan Terminal                                        | Jalan Kampung Karamunting, Sandakan, Sabah                                                        | Rented Except<br>Building & Facilities | Good      | MYR 587.7                                                      | May 2022                                             | No option stated in the agreement                                                                                                                                                                                                                                                                                                                                                        |
|                           | Sepangar Bay Terminal                                    | P.O. Box 10558, Kota Kinabalu 88806, Sabah                                                        | Rented Except<br>Building & Facilities | Good      | MYR 25,333.33<br>(Yearly Rental - MYR 304,000.00)              | July 2031                                            | An option for renewal for a period of thirty (15) years.                                                                                                                                                                                                                                                                                                                                 |
| <b>ENERGY BUSINESS</b>    |                                                          |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
| 1                         | <b>SAN MIGUEL ENERGY CORPORATION</b>                     |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
|                           | 1000 MW Sual Coal-Fired Thermal Power Plant              | Brgy. Pangascasan, Sual, Pangasinan                                                               | IPPA with PSALM                        | Good      |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
| 2                         | <b>SOUTH PREMIERE POWER CORP.</b>                        |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
|                           | 1200 MW Ilijan Natural Gas Combined Cycle Power Plant    | Brgy. Ilijan, Batangas City, Batangas                                                             | IPPA with PSALM                        | Good      |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
| 3                         | <b>STRATEGIC POWER DEVT. CORP.</b>                       |                                                                                                   |                                        |           |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |
|                           | 345 MW San Roque Multi-Purpose Hydroelectric Power Plant | Brgy. San Roque, San Manuel, Pangasinan                                                           | IPPA with PSALM                        | Good      |                                                                |                                                      |                                                                                                                                                                                                                                                                                                                                                                                          |

| Company Name / Subsidiary |                                                                                                                              | Address                                                           | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                  |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|-------------------------------------------------------------|
| <b>4</b>                  | <b>SMC CONSOLIDATED POWER CORPORATION (SCPC)</b> <sup>(a)</sup>                                                              |                                                                   |                |           |                                                           |                             |                                                             |
|                           | Phase I - 2 X 150 MW Coal-Fired Power Plant (Units 1 and 2)                                                                  | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Phase II - 2 X 150 MW Coal-Fired Power Plant (Units 3 and 4)                                                                 | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land - Site 1 (where a portion of the Phase I power plant and related facilities are situated)                               | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land - Site 2 (where a portion of the Phase II power plant and related facilities are situated)                              | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land (Ash Dump Facility)                                                                                                     | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Offshore/Foreshore land                                                                                                      | Brgy. Lamao, Limay, Bataan                                        | Rented         | Good      | 2,034,084.17                                              | December 2042               | Renewable for another 25 years at the option of the Lessor  |
|                           | Land - Site 3 (where a portion of the Phase II power plant and related facilities are situated)                              | Brgy. Lamao, Limay, Bataan                                        | Rented         | Good      | 344,792.50                                                | March 2042                  | Renewable for another 25 years to be agreed by both parties |
| <b>5</b>                  | <b>SAN MIGUEL CONSOLIDATED POWER CORPORATION (SMCPC)</b> <sup>(b)</sup>                                                      |                                                                   |                |           |                                                           |                             |                                                             |
|                           | 2 X 150 MW Coal-Fired Power Plant (Units 1 and 2)                                                                            | Brgy. Culaman, Malita, Davao Occidental                           | Owned          | Good      |                                                           |                             |                                                             |
|                           | 5 X 1.6 MW Diesel Generator Set                                                                                              | Brgy. Baliwasan, San Jose Road, Zamboanga City, Zamboanga Del Sur | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land (where Units 1 and 2 power plant and related facilities are situated)                                                   | Brgy. Culaman, Malita, Davao del Sur                              | Owned          | Good      |                                                           |                             |                                                             |
|                           | Offshore/Foreshore land                                                                                                      | Brgy. Culaman, Malita, Davao Occidental                           | Rented         | Good      | 55,300.51                                                 | February 2043               | Renewable for another 25 years at the option of the Lessor  |
|                           | Offshore/Foreshore land                                                                                                      | Brgy. Culaman, Malita, Davao Occidental                           | Rented         | Good      | 558,354.47                                                | February 2043               | Renewable for another 25 years at the option of the Lessor  |
| <b>6</b>                  | <b>GRAND PLANTER INTERNATIONAL INC.</b>                                                                                      |                                                                   |                |           |                                                           |                             |                                                             |
|                           | Land - Site 1 (where a portion of the SCPC Phase I and II power plants and related facilities are situated)                  | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land - Site 1 (where the 20 MW battery enegry storage project of UPSI is situated)                                           | Brgy. Lamao, Limay, Bataan                                        | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land - Site 2                                                                                                                | Brgy. Alangan, Limay, Bataan                                      | Owned          | Good      |                                                           |                             |                                                             |
|                           | Land - Project Expansion                                                                                                     | San Carlos City, Negros Occidental                                | Owned          | Good      |                                                           |                             |                                                             |
| <b>7</b>                  | <b>ONDARRE HOLDING CORPORATION</b>                                                                                           |                                                                   |                |           |                                                           |                             |                                                             |
|                           | Land                                                                                                                         | Brgy. Wack-Wack, Greenhills, Mandaluyong City                     | Owned          | Good      |                                                           |                             |                                                             |
| <b>8</b>                  | <b>DAGUMA AGRO-MINERALS, INC.</b>                                                                                            |                                                                   |                |           |                                                           |                             |                                                             |
|                           | Land                                                                                                                         | Tambler, General Santos City                                      | Owned          | Good      |                                                           |                             |                                                             |
| <b>9</b>                  | <b>ALPHA WATER REALTY SERVICES CORPORATION</b> <sup>(c)</sup>                                                                |                                                                   |                |           |                                                           |                             |                                                             |
|                           | Land (where Units 1-3 of MPPCL power plant and related facilities and the 10 MW battery energy storage project are situated) | Brgy. Bani, Masinloc, Zambales                                    | Owned          | Good      |                                                           |                             |                                                             |

| Company Name / Subsidiary |                                                                                                                                | Address                                                                     | Rented / Owned | Condition                        | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                          |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------|----------------------------------|-----------------------------------------------------------|-----------------------------|-----------------------------------------------------|
| <b>10</b>                 | <b>MASINLOC POWER PARTNERS CO. LTD. (MPPCL) <sup>(c)</sup></b>                                                                 |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | 330 MW coal-fired power plant<br>(Unit 1)                                                                                      | Brgy. Bani, Masinloc, Zambales                                              | Owned          | Good                             |                                                           |                             |                                                     |
|                           | 344 MW coal-fired power plant<br>(Unit 2)                                                                                      | Brgy. Bani, Masinloc, Zambales                                              | Owned          | Good                             |                                                           |                             |                                                     |
|                           | 335 MW coal-fired power plant<br>(Unit 3)                                                                                      | Brgy. Bani, Masinloc, Zambales                                              | Owned          | Under<br>commissioni<br>ng phase |                                                           |                             |                                                     |
|                           | 10 MW battery energy storage<br>project                                                                                        | Brgy. Bani, Masinloc, Zambales                                              | Owned          | Good                             |                                                           |                             |                                                     |
|                           | Land (where Units 1-3 power plant,<br>and related facilities, and the 10<br>MW battery energy storage project<br>are situated) | Brgy. Bani, Masinloc, Zambales                                              | Rented         | Good                             | Lease with PSALM -<br>US\$3,966.43                        | April 2028                  | With assignable option to purchase                  |
| <b>11</b>                 | <b>SMCGP PHILIPPINES ENERGY STORAGE CO. LTD.</b>                                                                               |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | Land                                                                                                                           | Brgy. Binicuil, Kabankalan, Negros Occidental                               | Owned          | Good                             |                                                           |                             |                                                     |
|                           | 2 X 20 MW battery energy storage<br>system                                                                                     | Brgy. Binicuil, Kabankalan, Negros Occidental                               | Owned          | Ongoing<br>construction          |                                                           |                             |                                                     |
| <b>12</b>                 | <b>ALBAY POWER AND ENERGY CORPORATION</b>                                                                                      |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | Land used for operating and<br>maintaining the 40-MVA Substation.                                                              | Legazpi City Albay.                                                         | Rented         | Good                             | 22,500.00                                                 | December 2021               | Renewable upon mutual agreement by<br>both parties. |
|                           | Land used for operating and<br>maintaining the 20-MVA Substation.                                                              | Centro Occidental, Polangui, Albay                                          | Rented         | Good                             | 25,000.00                                                 | Febraury 2024               | Renewable upon mutual agreement by<br>both parties. |
| <b>13</b>                 | <b>MARIVELES POWER GENERATION CORPORATION</b>                                                                                  |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | Land (where the 4 X 150MW coal-<br>fired power plant will be located)                                                          | Mariveles, Bataan                                                           | Owned          | Good                             |                                                           |                             |                                                     |
|                           | Land (where the transmission<br>network project is situated)                                                                   | Mariveles, Bataan                                                           | Owned          | Good                             |                                                           |                             |                                                     |
| <b>14</b>                 | <b>STRATEGIC ENERGY DEVELOPMENT INC.</b>                                                                                       |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | 15 MW Diesel-Fired Power Plant                                                                                                 | Brgy. Magdum, Tagum City                                                    | Owned          | Good                             |                                                           |                             |                                                     |
|                           | Land (where 15 MW Diesel-Fired<br>Power Plant is situated)                                                                     | Brgy. Magdum, Tagum City                                                    | Owned          | Good                             |                                                           |                             |                                                     |
| <b>15</b>                 | <b>TOPGEN ENERGY DEVELOPMENT INC.</b>                                                                                          |                                                                             |                |                                  |                                                           |                             |                                                     |
|                           | Land                                                                                                                           | Barrio of Centro Occidental, Municipality of Polangui,<br>Province of Albay | Owned          | Good                             |                                                           |                             |                                                     |

| Company Name / Subsidiary      |                                                                              | Address                                                                                                                                   | Rented / Owned | Condition            | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                       |
|--------------------------------|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------------|-----------------------------------------------------------|-----------------------------|--------------------------------------------------|
| <b>16</b>                      | <b>UNIVERSAL POWER SOLUTIONS, INC.</b>                                       |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Land (where the 20 MW Malita battery energy storage project is situated)     | Brgy. Culaman, Malita, Davao Occidental                                                                                                   | Owned          | Ongoing construction |                                                           |                             |                                                  |
|                                | Land (where the 40 MW BCCPP battery energy storage project is situated)      | Limay, Bataan                                                                                                                             | Rented         | Ongoing construction | 195,741.00                                                | April 15, 2045              | Renewable upon mutual agreement by both parties. |
|                                | Land (where the 20 MW Jasaan battery energy storage project is situated)     | Jasaan, Misamis Oriental                                                                                                                  | Rented         | Ongoing construction | 2,160,000.00                                              | April 15, 2045              | Renewable upon mutual agreement by both parties. |
|                                | Land (where the 20 MW Toledo battery energy storage project is situated)     | Calong-calong and Talevera, Toledo City, Cebu                                                                                             | Rented         | Ongoing construction | 900,000.00                                                | April 15, 2045              | Renewable upon mutual agreement by both parties. |
|                                | Land (where the 20 MW Villanueva battery energy storage project is situated) | Brgy. Sta. Ana, Tagaloan and San Maritin , Villanueva, Phividec Industrial Estate of Misamis Oriental - Special Economic Zone (PIEMO-SEZ) | Rented         | Ongoing construction | 295,740.00                                                | June 04, 2045               | Renewable upon mutual agreement by both parties. |
|                                | Land (where the 40 MW Navotas battery energy storage project is situated)    | North Bay Boulevard, Navotas, Metro Manila                                                                                                | Rented         | Ongoing construction | 764,632.80                                                | April 30, 2036              | Renewable upon mutual agreement by both parties. |
| <b>17</b>                      | <b>DEWSWEEPER INDUSTRIAL PARK, INC.</b>                                      |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Land                                                                         | Brgy. Lipata, Padre Burgos, Quezon                                                                                                        | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Land (for project expansion)                                                 | Brgy. Ibabang Polo, Pagbilao, Quezon                                                                                                      | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Land                                                                         | Brgy. Ilayang Polo, Pagbilao, Quezon                                                                                                      | Owned          | Good                 |                                                           |                             |                                                  |
| <b>INFRASTRUCTURE BUSINESS</b> |                                                                              |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
| <b>1</b>                       | <b>SAN MIGUEL HOLDINGS CORP.</b>                                             |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Office Space                                                                 | Wing A and B - 11/F San Miguel Properties Centre St. Francis Street, Mandaluyong City                                                     | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space                                                                 | 20/F San Miguel Properties Centre St. Francis Street, Mandaluyong City                                                                    | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space - 83 sq meters                                                  | No. 40 San Miguel Avenue, Mandaluyong City                                                                                                | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space                                                                 | 4th Floor San Miguel Properties Center St. Francis Street Mandaluyong City                                                                | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space - 635.75 sq meters                                              | Unit C and D - 23rd Floor of the JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City                                        | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space                                                                 | Unit A - 18th Floor of the JMT Corporate Condominium, ADB Avenue, Ortigas Center Pasig City                                               | Owned          | Good                 |                                                           |                             |                                                  |
| <b>2</b>                       | <b>VERTEX TOLLWAYS DEVT. INC.</b>                                            |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Office Space                                                                 | No. 40 San Miguel Ave., Mandaluyong City                                                                                                  | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space                                                                 | Ground Floor, TOB Doña Soledad Avenue, Bicutan, Paranaque City                                                                            | Owned          | Good                 |                                                           |                             |                                                  |
|                                | Office Space                                                                 | Unit C 18th Floor of the JMT Corporate Condominium, ADB Avenue, Ortigas Center                                                            | Owned          | Good                 |                                                           |                             |                                                  |
| <b>3</b>                       | <b>TERRAMINO HOLDINGS, INC AND ASSETVALUES HOLDING COMPANY, INC.</b>         |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Office Space                                                                 | 11F and 20/F San Miguel Properties Centre St. Francis Street, Mandaluyong City                                                            | Owned          | Good                 |                                                           |                             |                                                  |
| <b>4</b>                       | <b>UNIVERSAL LRT CORPORATION (BVI) LIMITED</b>                               |                                                                                                                                           |                |                      |                                                           |                             |                                                  |
|                                | Office Space                                                                 | 11/F San Miguel Properties Centre, St. Francis Street, Mandaluyong City                                                                   | Owned          | Good                 |                                                           |                             |                                                  |

| Company Name / Subsidiary |                                                                               | Address                                                                                                    | Rented / Owned                                                           | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                             |
|---------------------------|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|------------------------------------------------------------------------|
| <b>5</b>                  | <b>TRANS AIRE DEVELOPMENT HOLDINGS, CORP.</b>                                 |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Residential Building                                                          | Caticlan, Malay, Aklan                                                                                     | Rented                                                                   | Good      | 300,000.00                                                | February 07, 2022           | Subject to renewal or extension as mutually agreed between the parties |
|                           | Office Space                                                                  | Wing B 2/F San Miguel Building, 40 San Miguel Ave. Mandaluyong City                                        | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>6</b>                  | <b>SMC TPLEX HOLDINGS COMPANY, INC. (Formerly: Rapid Thoroughfares, Inc.)</b> |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Land                                                                          | Emilio Vergara Highway Corner Mabini Street Extension, Sta. Arcadia, Cabanatuan, Nueva Ecija               | Owned                                                                    | Good      |                                                           |                             |                                                                        |
|                           | Land                                                                          | Maharlika Highway, Malipampang, San Ildefonso, Bulacan                                                     | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>7</b>                  | <b>SMC TPLEX CORPORATION (Formerly: Private Infra Dev Corporation)</b>        |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Head Office (Old)                                                             | Unit 06 UG Pioneer Highlands Condo Tower 2, Pioneer corner Madison Streets, Mandaluyong City               | Owned                                                                    | Good      |                                                           |                             |                                                                        |
|                           | Head Office                                                                   | The JMT Bldg, ADB Ave. Ortigas Center, Pasig City                                                          | Owned                                                                    | Good      |                                                           |                             |                                                                        |
|                           | ROW - Living quarters                                                         | McArthur Hiway, Bued, Binalonan Pangasinan                                                                 | Rented                                                                   | Good      | Renato E. Legaspi - P10,000                               | January 31, 2021            | Contract was terminated last January 31, 2021                          |
|                           | ROW - Office                                                                  | Brgy. Poblacion, Sison, Pangasinan                                                                         | Rented                                                                   | Good      | Columba Aquino Liberato - P16,000                         | January 31, 2021            | Contract was terminated last January 31, 2021                          |
|                           | ROW - Office                                                                  | Brgy. Poblacion, Sison, Pangasinan                                                                         | Rented                                                                   | Good      | Columba Aquino Liberato - P14,000                         | January 31, 2021            | Contract was terminated last January 31, 2021                          |
|                           | ROW - Office & Lodging                                                        | Cauringan, Sison Pangasinan                                                                                | Rented                                                                   | Good      | RCDC Property Rental - P24,000                            | December 21, 2021           | Subject to renewal or extension as mutually agreed between the parties |
|                           | DPWH Lodging                                                                  | Brgy. Asan Norte, Municipality of Sison, Pangasinan                                                        | Rented                                                                   | Good      | Fermina C. Marcena - P10,000                              | December 21, 2021           | Subject to renewal or extension as mutually agreed between the parties |
|                           | Construction Office & Lodging/DPWH & IC Office                                | Sitio Anoyao, Barangay Linmansangan, Binalonan Pangasinan                                                  | Rented                                                                   | Good      | Big Elephant Inland Resort P150,000                       | December 21, 2021           | Subject to renewal or extension as mutually agreed between the parties |
| <b>8</b>                  | <b>OPTIMAL INFRASTRUCTURE DEVELOPMENT, INC.</b>                               |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Land                                                                          | Manila Harbour Centre, Brgy. 128 Zone 10 (Isla de Balut/Vitas), Tondo, Manila City                         | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>9</b>                  | <b>SLEEP INTERNATIONAL (NETHERLANDS) COOPERATIEF U.A.</b>                     |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | Prins Bernhardplein 200, 1097 JB Amsterdam                                                                 | Owned by the Service Provider                                            | Good      |                                                           |                             |                                                                        |
| <b>10</b>                 | <b>WISELINK INVESTMENT HOLDINGS, INC.</b>                                     |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                     | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>11</b>                 | <b>ATLANTIC AURUM INVESTMENTS B.V.</b>                                        |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | Museumlaan 2, 3581 HK, Utrecht, The Netherlands                                                            | Owned by the Service Provider                                            | Good      |                                                           |                             |                                                                        |
| <b>12</b>                 | <b>STAGE 3 CONNECTOR TOLLWAYS HOLDINGS CORPORATION</b>                        |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | 40 San Miguel Avenue, Mandaluyong City                                                                     | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>13</b>                 | <b>CITRA CENTRAL EXPRESSWAY CORP</b>                                          |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | 4F Toll Operations Complex, Dona Soledad Ave., Better Living Subd., Paranaque City                         | Owned by ROP (Citra Metro Manila Tollways Corporation Concession Rights) | Good      |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | Unit D - 18th Floor of the JMT Corporate Condominium ADB Avenue, Ortigas Center Pasig City                 | Owned                                                                    | Good      |                                                           |                             |                                                                        |
| <b>14</b>                 | <b>CITRA METRO MANILA TOLLWAYS CORPORATION</b>                                |                                                                                                            |                                                                          |           |                                                           |                             |                                                                        |
|                           | Office Space                                                                  | 21st to 24th Floors One Magnificent Mile-CITRA Building, San Miguel Avenue, Ortigas Center 1605 Pasig City | Owned                                                                    | Good      |                                                           |                             |                                                                        |

| Company Name / Subsidiary |                                             | Address                                                                                                                  | Rented / Owned                                                                    | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                                                  |
|---------------------------|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Office Space                                | 3/F Toll Operations Building, Doña Soledad Avenue,<br>Brgy. Don Bosco, Parañaque City                                    | Owned                                                                             | Good      |                                                           |                             |                                                                                                                                                                             |
| 15                        | <b>SKYWAY O&amp;M CORPORATION</b>           |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | 1st and 2nd Floors TOB Doña Soledad Avenue,<br>Bicutan, Paranaque City                                                   | Owned                                                                             | Good      |                                                           |                             |                                                                                                                                                                             |
| 16                        | <b>ALLOY MANILA TOLL EXPRESSWAYS INC.</b>   |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | GF Operations and Control Center, Km.44 South Luzon<br>Expressway, Sitio Latian, Brgy. Mapagong, Calamba<br>City, Laguna | Owned by ROP<br>(South Luzon Tollway<br>Corporation<br>Concession Rights)         | Good      |                                                           |                             |                                                                                                                                                                             |
|                           | Land                                        | Km.44 Sitio Latian, Brgy. Mapagong, Calamba City,<br>Laguna                                                              | Owned                                                                             | Good      |                                                           |                             |                                                                                                                                                                             |
| 17                        | <b>JETHANDLER ASIA SERVICES, INC.</b>       |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 51,580.76                                                 | September 01, 2021          | Renewable upon mutual agreement in<br>writing by the parties through their duly<br>authorized representatives                                                               |
|                           | Office Space                                | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 142,105.26                                                | November 30, 2021           | For pre-termination effective January 1,<br>2021                                                                                                                            |
|                           | Lot Rental                                  | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 39,252.34                                                 | July 12, 2023               | No renewal options                                                                                                                                                          |
|                           | Lot Rental                                  | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 88,421.05                                                 | July 12, 2022               | Renewable for another period of two (2)<br>years upon mutual agreement of the<br>parties                                                                                    |
|                           | Stockroom Rental                            | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 18,947.37                                                 | December 31, 2021           | Subject to renewal or extension upon<br>expiration at the option of the LESSEE and<br>on such terms and conditions as may<br>mutually be agreed upon between the<br>parties |
|                           | PNP Staffhouse                              | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 8,421.05                                                  | December 31, 2021           | Subject to renewal or extension upon<br>expiration at the option of the LESSEE and<br>on such terms and conditions as may<br>mutually be agreed upon between the<br>parties |
|                           | AVSEC Barracks                              | Caticlan, Malay, Aklan                                                                                                   | Rented                                                                            | Good      | 10,526.32                                                 | December 31, 2021           | Subject to renewal or extension upon<br>expiration at the option of the LESSEE and<br>on such terms and conditions as may<br>mutually be agreed upon between the<br>parties |
| 18                        | <b>MANILA TOLL EXPRESSWAY SYSTEMS, INC.</b> |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | GF Operations and Control Center, Km.44 South Luzon<br>Expressway, Sitio Latian, Brgy. Mapagong, Calamba<br>City, Laguna | Owned by ROP<br>(South Luzon Tollway<br>Corporation<br>Concession Rights)         | Good      |                                                           |                             |                                                                                                                                                                             |
| 19                        | <b>SMC INFRAVENTURES INC.</b>               |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | 40 San Miguel Avenue, Mandaluyong City                                                                                   | Owned                                                                             | Good      |                                                           |                             |                                                                                                                                                                             |
| 20                        | <b>SOUTH LUZON TOLLWAYS CORPORATION</b>     |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | LAND                                        | Lot 3122-C, Sitio Latian, Brgy. Mapagong, Calamba,<br>Laguna                                                             | Owned                                                                             | Good      |                                                           |                             |                                                                                                                                                                             |
| 21                        | <b>CITRA INTERCITY TOLLWAYS, INC.</b>       |                                                                                                                          |                                                                                   |           |                                                           |                             |                                                                                                                                                                             |
|                           | Office Space                                | 4F Toll Operations Complex, Dona Soledad Ave., Better<br>Living Subd., Paranaque City                                    | Owned by ROP<br>(Citra Metro Manila<br>Tollways Corporation<br>Concession Rights) | Good      |                                                           |                             |                                                                                                                                                                             |



| Company Name / Subsidiary |                                                    | Address                                                                                                          | Rented / Owned                                                                           | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-----------|-----------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Office Space                                       | Unit B 18th Floor of the JMT Corporate Condominium,<br>ADB Avenue, Ortigas Center, Pasig City                    | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>22</b>                 | <b>CYPRESS TREE CAPITAL INVESTMENTS, INC.</b>      |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 7th Floor, Electra House Building, 115-117 Esteban St.,<br>Legazpi Village, Makati City                          | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>23</b>                 | <b>STAR INFRASTRUCTURE DEVELOPMENT CORPORATION</b> |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                               | Brgy. Lapu Lapu, Ibaan, Batangas                                                                                 | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | SIDC OFFICE                                        | 7th Floor Electra House Condominium, 115- 117<br>Esteban St., Legaspi Village, Makati City                       | Rented                                                                                   | Good      | 48,049.82                                                 | January 31, 2021            | Subject to renewal or extension as<br>mutually agreed between the parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|                           | Office Space                                       | 2F Operations and Control center, Km 44 South Luzon<br>Expressway, Sitio Latian, Brgy. Mapagong ,Calamba<br>City | Rented                                                                                   | Good      | 18,830.26                                                 | December 31, 2021           | Subject to renewal or extension as<br>mutually agreed between the parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>24</b>                 | <b>STAR TOLLWAY CORPORATION</b>                    |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | Brgy. Tambo, Lipa City, Batangas                                                                                 | Owned by ROP<br>(Star Infrastructure<br>Development<br>Corporation<br>Concession Rights) | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>25</b>                 | <b>ULCOM COMPANY, INC.</b>                         |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 11/F San Miguel Properties Centre St. Francis Street,<br>Mandaluyong City                                        | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>26</b>                 | <b>SMC MASS RAIL TRANSIT 7, INC.</b>               |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 40 San Miguel Avenue, Mandaluyong City                                                                           | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | GF 808 Bldg, Meralco Avenue Cor Gen Lim Street,<br>Brgy. San Antonio, Pasig City                                 | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 4F 808 Bldg, Meralco Avenue Cor Gen Lim Street, Brgy.<br>San Antonio, Pasig City                                 | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 808 Bldg, Meralco Avenue Cor Gen Lim Street, Brgy.<br>San Antonio, Pasig City (Meeting Rooms G & H)              | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 808 Bldg, Meralco Avenue Cor Gen Lim Street, Brgy.<br>San Antonio, Pasig City (Meeting Rooms I & J)              | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>27</b>                 | <b>AEROFUEL STORAGE MANAGEMENT INC.</b>            |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 11/F San Miguel Properties Centre St. Francis Street,<br>Mandaluyong City                                        | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>28</b>                 | <b>ARGONBAY CONSTRUCTION COMPANY, INC.</b>         |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 11/F San Miguel Properties Centre St. Francis Street,<br>Mandaluyong City                                        | Owned                                                                                    | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>29</b>                 | <b>INTELLIGENT E- PROCESSES TECHNOLOGIES CORP.</b> |                                                                                                                  |                                                                                          |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                       | 16th Floor Unit A, 45 San Miguel Building, 45 San<br>Miguel Avenue, Ortigas Center, Pasig City                   | Rented                                                                                   | Good      | 211,250.00                                                | May 31, 2021                | Upon mutual agreement of the Lessor and<br>the Lessee, the lease may be renewed<br>under such terms and conditions<br>acceptable to the parties, provided,<br>however, that within ninety (90) days prior<br>to the expiration of the Lease Period, the<br>Lessee shall inform the Lessor in writing of<br>its intention to renew the lease. If no<br>written notice of renewal is received by the<br>Lessor from the Lessee during the said 90-<br>day period, the lease shall automatically<br>terminate upon the expiration of the<br>original Lease Period. |



| Company Name / Subsidiary |                                                           | Address                                                                                                                           | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                                                                                                                                                                                                                                                                                                     |
|---------------------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Office Space                                              | KM 44 South Luzon, Brgy. Mapagong, Sitio Latian, Calamba, Laguna                                                                  | Rented         | Good      | 250,655.02                                                | May 31, 2021                | May be renewed upon mutual written agreement of the parties. Either party may serve a written request for renewal on the other party within ninety (90) days prior to the expiration of the Lease Period; provided that the party, upon whom such notice is served, shall not be obliged to agree to the renewal of the lease. |
|                           | Office Space                                              | KM 44 South Luzon, Brgy. Mapagong, Sitio Latian, Calamba, Laguna                                                                  | Rented         | Good      | 159,135.00                                                | December 31, 2021           | May be renewed upon mutual written agreement of the parties. Either party may serve a written request for renewal on the other party within ninety (90) days prior to the expiration of the Lease Period; provided that the party, upon whom such notice is served, shall not be obliged to agree to the renewal of the lease. |
| <b>30</b>                 | <b>LUZON CLEAN WATER DEVELOPMENT CORPORATION</b>          |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | BBW Administration Bldg. Don Manuel F. Reyes Ave. PH 1, Gate 1, Pleasant Hills Subd., Brgy. San Manuel City of SJDM, Bulacan 3023 | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>31</b>                 | <b>PASIG RIVER EXPRESSWAY CORPORATION</b>                 |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Mandaluyong City                                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>32</b>                 | <b>TPLEX OPERATIONS AND MAINTENANCE CORP</b>              |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | Brgy Baculong, Victoria, Tarlac                                                                                                   | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | Brgy Baculong, Victoria, Tarlac                                                                                                   | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | Brgy Palakipak, Rosales, Pangasinan                                                                                               | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>33</b>                 | <b>SINCERE LUMBER CO., INC.</b>                           |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Land                                                      | 1500 Quirino Ave., Paco, Manila City, Metro Manila                                                                                | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>34</b>                 | <b>SAN MIGUEL AEROCITY INC</b>                            |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | Lower Penthouse, 808 Building, Meralco Avenue, Brgy Antonio Pasig City                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 5th Floor, 808 Building, Meralco Avenue, Brgy Antonio Pasig City                                                                  | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>35</b>                 | <b>SMC Central Access Link Expressway Corp.</b>           |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>36</b>                 | <b>SMC Marilao Access Link Expressway Corp.</b>           |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>37</b>                 | <b>SMC Northern Access Link Expressway Corp.</b>          |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>38</b>                 | <b>SMC Southern Access Link Expressway Corp.</b>          |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>39</b>                 | <b>SOUTH LUZON TOLL ROAD-5 EXPRESSWAY INC</b>             |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | No. 40 San Miguel Ave., Mandaluyong City                                                                                          | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
| <b>39</b>                 | <b>ATLANTIC AURUM INVESTMENTS PHILIPPINES CORPORATION</b> |                                                                                                                                   |                |           |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |
|                           | Office Space                                              | 40 San Miguel Avenue, Mandaluyong City                                                                                            | Owned          | Good      |                                                           |                             |                                                                                                                                                                                                                                                                                                                                |

| Company Name / Subsidiary |                                 | Address                                                                                                             | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options |
|---------------------------|---------------------------------|---------------------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------|
| 40                        | MTD Manila Expressways, Inc.    |                                                                                                                     |                |           |                                                           |                             |                            |
|                           | Office Space                    | 40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City                                                              | Owned          | Good      |                                                           |                             |                            |
| 41                        | ASSETVALUES HOLDING COMPANY INC |                                                                                                                     |                |           |                                                           |                             |                            |
|                           | Office Space                    | 11F and 20/F San Miguel Properties Centre St. Francis Street, Mandaluyong City                                      | Owned          | Good      |                                                           |                             |                            |
| <b>OTHERS</b>             |                                 |                                                                                                                     |                |           |                                                           |                             |                            |
| 1                         | SAN MIGUEL CORPORATION          |                                                                                                                     |                |           |                                                           |                             |                            |
|                           | Iligan Coconut Oil Mill         | Sta.Filomena, Iligan City                                                                                           | Owned          | Good      |                                                           |                             |                            |
|                           | Land and Warehouse              | A. Del Rosario Ave., Brgy. Tipolo, Mandaue City                                                                     | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Banilad, Mandaue - Petron Station                                                                                   | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Alfonso, Cavite - Management Training Center                                                                        | Owned          | Good      |                                                           |                             |                            |
|                           | Office Space                    | Meralco Ave., Pasig City - 808 Building                                                                             | Owned          | Good      |                                                           |                             |                            |
|                           | Warehouse Only                  | Northbay Blvd., Navotas, Metro Manila                                                                               | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | San Fernando, Pampanga - SMFI Poultry                                                                               | Owned          | Good      |                                                           |                             |                            |
|                           | Office Space                    | 40 San Miguel Ave., Mandaluyong City - SMC Corporate Office                                                         | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | San Rafael, Tarlac - Petron Station                                                                                 | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Tagaytay - Petron Station                                                                                           | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Tunasan - Petron Station                                                                                            | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Looc Ouano, Mandaue City                                                                                            | Owned          | Good      |                                                           |                             |                            |
|                           | Warehouse Only                  | SMC Complex, Quebiawan, San Fernando, Pampanga                                                                      | Owned          | Good      |                                                           |                             |                            |
| 2                         | REAL ESTATE BUSINESS            |                                                                                                                     |                |           |                                                           |                             |                            |
|                           | San Miguel Properties, Inc.     |                                                                                                                     |                |           |                                                           |                             |                            |
|                           | Bel Aldea Subdivision           | Brgy. San Francisco, Gen. Trias, Cavite                                                                             | Owned          | Good      |                                                           |                             |                            |
|                           | Maravilla Subdivision           | Brgy. San Francisco, Gen. Trias, Cavite                                                                             | Owned          | Good      |                                                           |                             |                            |
|                           | Asian Leaf Subdivision          | Brgy. San Francisco, Gen. Trias, Cavite                                                                             | Owned          | Good      |                                                           |                             |                            |
|                           | Office Spaces                   | San Miguel Properties Centre, Mandaluyong City                                                                      | Owned          | Good      |                                                           |                             |                            |
|                           | Office Building                 | 155 Edsa (SMITS), Ortigas Center, Mandaluyong City                                                                  | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | 620 Lee St., Mandaluyong City                                                                                       | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | San Isidro Road corner Unnamed Road Lot, Brgy. Tatalon, Cabuyao, Laguna                                             | Owned          | Good      |                                                           |                             |                            |
|                           | Land and Building               | 808 Bldg. Meralco Avenue corner General Lim St., Brgy. San Antonio, Pasig City                                      | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Along Commerce Avenue Corner Asean Drive and Jakarta Lane, Filinvest Corporate City, Brgy. Alabang, Muntinlupa City | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgy. Canlubang and Majada, Calamba City, Laguna                                                                    | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Barrio de Fuego, Gen. Trias, Cavite                                                                                 | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Barrio Sinaliw Munti, Alfonso, Cavite                                                                               | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgys. of Mabatac, Sinaliw and Kaytitinga, Sitios of Amuyong and Haulian, Alfonso, Cavite                           | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgys. Lourdes and Santiago, Lubao, Pampanga                                                                        | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Cagay Road, Brgy. Asid, Masbate City                                                                                | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgy. Tagabuli, Sta. Cruz, Davao del Sur                                                                            | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Sitio Landing, Brgy. Darong, Sta. Cruz, Davao del Sur                                                               | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgy. Darong, Sta. Cruz, Davao del Sur                                                                              | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgy. Bato, Sta. Cruz, Davao del Sur                                                                                | Owned          | Good      |                                                           |                             |                            |
|                           | Land                            | Brgy. Yapak, Boracay Island, Malay, Aklan                                                                           | Owned          | Good      |                                                           |                             |                            |

| Company Name / Subsidiary                     |                            | Address                                                                                     | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options |
|-----------------------------------------------|----------------------------|---------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------|
|                                               | Land                       | 327 Brgy. Prenza-San Fermin, Cauayan City, Isabela                                          | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | 471 F. Ortigas St., Brgy. Hagdang Bato Libis,<br>Mandaluyong City                           | Owned          | Good      |                                                           |                             |                            |
|                                               | Land/Building/Improvements | San Miguel Corporation - Head Office Complex, No. 40<br>San Miguel Avenue, Mandaluyong City | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Dr. A Santos Ave. (Sucat Road), Parañaque City                                              | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Brgy. Boot, Tanuan, Batangas                                                                | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Brgy. Glamang (Silway), Polomolok, South Cotabato                                           | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Maragondon / Mabacao - Magallanes Road, Brgy.<br>Mabato, Maragondon, Cavite                 | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Acacia St., Brgy. Hagdang Bato, Mandaluyong City                                            | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Sixto Avenue, Maybunga, Pasig City                                                          | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | National Road, Brgy. Bunawan, Davao City                                                    | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Crestview Heights Subd., San Roque, Antipolo, Rizal                                         | Owned          | Good      |                                                           |                             |                            |
|                                               | Land and Building          | Crestview Circle, Crestview Heights Subdivision, San<br>Roque, Antipolo City                | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | 618 Lee St. Brgy. Addition Hills, Mandaluyong City                                          | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Brgy. Bucal Calamba, Laguna                                                                 | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Brgy. Tawala, Panglao, Bohol                                                                | Owned          | Good      |                                                           |                             |                            |
|                                               | Land                       | Bunawan Davao Del Sur, Davao City part of 146-7637                                          | Owned          | Good      |                                                           |                             |                            |
|                                               | Land and Building          | 635 Lee St. Addition Hills Mandaluyong City                                                 | Owned          | Good      |                                                           |                             |                            |
|                                               | Land and Building          | Brgy. Sasa, Davao City                                                                      | Owned          | Good      |                                                           |                             |                            |
| Bel-Aldea Realty, Inc.                        |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land and Building          | No. 77 IPO St., Brgy. Paang Bundok, La Loma, Quezon<br>City                                 | Owned          | Good      |                                                           |                             |                            |
| Bright Ventures Realty, Inc.                  |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | A. Marcos cor M.H. del Pilar and A. Mabini Sts.,<br>Addition Hills, San Juan City           | Owned          | Good      |                                                           |                             |                            |
|                                               | Land / Dover Hill          | No. 168 Pilar Corner P. Zamora Sts., Brgy. Addition<br>Hills, San Juan City                 | Owned          | Good      |                                                           |                             |                            |
| Brillar Realty and Development Corp.          |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Limbones Island, Brgy. Papaya, Nasugbu, Batangas                                            | Owned          | Good      |                                                           |                             |                            |
| Dimanyan Wakes Holdings, Inc.                 |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Busuanga Bay Holdings Inc.                    |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Bulalacao Property Holdings, Inc.             |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Calamian Prime Holdings, Inc.                 |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Palawan White Sands Holdings Corp.            |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Coron Islands Holdings, Inc.                  |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Bo. Bulalacao, Bulalacao Island, Coron, Palawan                                             | Owned          | Good      |                                                           |                             |                            |
| Rapidshare Realty and Development Corporation |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | 341 Northwestern St., Brgy. Wack-Wack, Greenhills,<br>Mandaluyong City                      | Owned          | Good      |                                                           |                             |                            |
| SMC Originals, Inc.                           |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Antonio Arnaiz Avenue corner Estacion St., Brgy. Pio<br>del Pilar, Makati City              | Owned          | Good      |                                                           |                             |                            |
| Silang Resources, Inc.                        |                            |                                                                                             |                |           |                                                           |                             |                            |
|                                               | Land                       | Brgys. San Vicente, San Miguel, Biluso And Lucsuhin,<br>Silang, Cavite                      | Owned          | Good      |                                                           |                             |                            |

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|---------------------------|---------------------------------------|-----------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------|
|                           | Tanauan Resources, Inc.               |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | No. 34 McKinley Road, Brgy. Forbes Park (North Side), Makati City                 | Owned          | Good      |                                                           |                             |                            |
|                           | SMPI Makati Flagship Realty Corp.     |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land and Building                     | 117 Legaspi and Gallardo Sts., Legaspi Village, Makati City                       | Owned          | Good      |                                                           |                             |                            |
|                           | Carnell Realty, Inc.                  |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 621 Lee St., Mandaluyong City                                                     | Owned          | Good      |                                                           |                             |                            |
|                           | Grandioso Realty Corporation          |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | National Road, Brgy. Tumbler, General Santos City                                 | Owned          | Good      |                                                           |                             |                            |
|                           | Sta. Cruz Resource Management, Inc.   |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land and Building                     | 54 and 50 Hydra St., Bel Air 3, Makati City                                       | Owned          | Good      |                                                           |                             |                            |
|                           | Maison 17 Properties, Inc.            |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 116 Legaspi and Gallardo Sts., Legaspi Village, Makati City                       | Owned          | Good      |                                                           |                             |                            |
|                           | Integrated Geosolutions, Inc.         |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | Bo.Diezmo, Cabuyao, Laguna                                                        | Owned          | Good      |                                                           |                             |                            |
|                           | Tierra Castellanas Development Inc.   |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | Brgy. Bungoy, Dolores, Quezon                                                     | Owned          | Good      |                                                           |                             |                            |
|                           | Excel Unified Land Resources Corp.    |                                                                                   |                |           |                                                           |                             |                            |
|                           | Wedge Woods Subdivision               | Silang, Cavite                                                                    | Owned          | Good      |                                                           |                             |                            |
|                           | 512 Acacia Holdings, Inc.             |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 512 Acacia Ave., Ayala Alabang Village Phase II-A, Brgy. Alabang, Muntinlupa City | Owned          | Good      |                                                           |                             |                            |
|                           | La Verduras Realty Corp.              |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | No. 38 Gen. Delgado Street, San Antonio Village, Pasig City                       | Owned          | Good      |                                                           |                             |                            |
|                           | First Monte Sierra Realty Corporation |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | Brgy. San Antonio, Basco, Batanes                                                 | Owned          | Good      |                                                           |                             |                            |
|                           | El Vertice Realty Corp.               |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land and Building                     | 4912 Pasay Road, Dasmariñas Village, Makati City                                  | Owned          | Good      |                                                           |                             |                            |
|                           | Estima Realty Corp.                   |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land and Building                     | 4914 Pasay Road, Dasmariñas Village, Makati City                                  | Owned          | Good      |                                                           |                             |                            |
|                           | Lanes and Bi-Ways Realty Corp.        |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 403 Columbia St., East Greenhills, Mandaluyong City                               | Owned          | Good      |                                                           |                             |                            |
|                           | Land                                  | #2 Columbia St. N.East Greenhills, San Juan                                       | Owned          | Good      |                                                           |                             |                            |
|                           | Premiata Realty, Inc.                 |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 52 Mercedes cor 61 Aries, Bel Air 3, Makati City                                  | Owned          | Good      |                                                           |                             |                            |
|                           | Picanto de Alta Realty Corp.          |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 1331 J.P. Laurel St. Brgy. 643 Zone 066, San Miguel District, Manila              | Owned          | Good      |                                                           |                             |                            |
|                           | Kingsborough Realty, Inc.             |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | 37 Gen. Delgado St., San Antonio Village, Pasig City                              | Owned          | Good      |                                                           |                             |                            |
|                           | E- Fare Investment Holdings Inc.      |                                                                                   |                |           |                                                           |                             |                            |
|                           | Land                                  | Mariveles, Bataan                                                                 | Owned          | Good      |                                                           |                             |                            |

| Company Name / Subsidiary |                                                                                                        | Address                                                                                  | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                     |
|---------------------------|--------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|------------------------------------------------|
|                           | Rapidshare Realty and Development Corporation                                                          |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | Northwestern Street, Barangay Wack-Wack Greenhills, Mandaluyong City                     | Owned          | Good      |                                                           |                             |                                                |
|                           | Land and Building                                                                                      | Ortigas Street, Barangay Wack-Wack, Greenhills, Mandaluyong City                         | Owned          | Good      |                                                           |                             |                                                |
|                           | Apice Solare Resources Corp.                                                                           |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | National Road, Barangay Igmaya-an, District 1, Don Salvador Benedicto, Negros Occidental | Owned          | Good      |                                                           |                             |                                                |
|                           | Roca Pesada Realty Corp.                                                                               |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | 118 Esteban Abada St. Varsity Hills, Quezon City                                         | Owned          | Good      |                                                           |                             |                                                |
|                           | Casa Sabroso Holdings Inc.                                                                             |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land and Building                                                                                      | Ilongo St. La Vista, Quezon City                                                         | Owned          | Good      |                                                           |                             |                                                |
|                           | Uno Clarity Investment Holdings Inc.                                                                   |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land and Building                                                                                      | Buruanga, Aklan                                                                          | Owned          | Good      |                                                           |                             |                                                |
|                           | Zee2 Resources Inc.                                                                                    |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | 82 Cambridge Circle, North Forbes Park, Makati City                                      | Owned          | Good      |                                                           |                             |                                                |
|                           | Quicksilver Development Corp.                                                                          |                                                                                          | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | 50 McKinley Road North Forbes Park Makati City                                           | Owned          | Good      |                                                           |                             |                                                |
|                           | Max Harvest Holdings Inc.                                                                              |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | Brgy. Anyatam San Ildefonso Bulacan                                                      | Owned          | Good      |                                                           |                             |                                                |
|                           | One Wilson Cayenne Holdings, Inc.                                                                      |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | 708-A J.R Yulo St. Mandaluyong City                                                      | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | 6-C East St. Addition Hills Mandaluyong City                                             | Owned          | Good      |                                                           |                             |                                                |
|                           | Auburnrite Holdings Inc.                                                                               |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | Bungahan, Biñan, Laguna                                                                  | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Mamplasan, Biñan, Laguna                                                                 | Owned          | Good      |                                                           |                             |                                                |
| <b>3</b>                  | <b>PACIFIC CENTRAL PROPERTIES, INC.</b>                                                                |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | Limay, Combined Power Plant, Limay, Bataan                                               | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Dauin, Negros Oriental                                                                   | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Outlook Drive, Baguio City                                                               | Owned          | Good      |                                                           |                             |                                                |
| <b>4</b>                  | <b>SMC SHIPPING AND LIGHTERAGE CORPORATION AND SUBSIDIARIES</b>                                        |                                                                                          |                |           |                                                           |                             |                                                |
|                           | SMC Shipping and Lighterage Corporation                                                                |                                                                                          |                |           |                                                           |                             |                                                |
|                           | Land                                                                                                   | Maribojoc-Cortes National Road Junction, Barrio Salvador, Cortes, Bohol                  | Owned          | Good      |                                                           |                             |                                                |
|                           | Land and Building                                                                                      | Dr. A. Santos Avenue corner Unnamed Road, Brgy. San Antonio, Parañaque City              | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Mariveles Bataan Lot #1 and #2, Barrio of Lucanin, Mariveles, Bataan                     | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Mariveles Bataan Lot #3, Barrio of Agnipa and Cabcaban, Mariveles, Bataan                | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | National Road, Brgy. San Pedro, Bauan and Brgy. San Juan, Mabini, Batangas               | Owned          | Good      |                                                           |                             |                                                |
|                           | Building (Admin Buildings, Warehouses D, C, R, S, I, N, Q, L, M, Terminals, Parking Shed, Loading Bay) | Ouano Wharf, Looc, Manduae City                                                          | Owned          | Good      |                                                           |                             |                                                |
|                           | Building (KCSLI)                                                                                       | Dad Cleland Avenue, Looc, Lapu Lapu City                                                 | Owned          | Good      |                                                           |                             |                                                |
|                           | Land and Building                                                                                      | Brgy. Loboc, Lapaz, Iloilo                                                               | Owned          | Good      |                                                           |                             |                                                |
|                           | Land                                                                                                   | Mariveles, Bataan                                                                        | Rented         | Good      | 2,550,306.28                                              | September 30, 2030          | Renewable upon mutual agreement of the parties |
|                           | Land                                                                                                   | Yard 2, Engineering Island, Baseco Compound, Port Area, Manila City                      | Rented         | Good      | 3,067,079.30                                              | January 02, 2022            | Renewable upon mutual agreement of the parties |

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|---------------------------|---------------------------------------------------------------|------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Land at Bataan Warehouse 1 & 2                                | Freeport Area, Mariveles, Bataan                           | Rented         | Good      | 422,592.96                                                | May 31, 2023                | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Land                                                          | Block 22 Manila Harbor Center, Tondo, Manila City          | Rented         | Good      | 1,163,568.14                                              | April 14, 2020              | Renewable upon mutual agreement of the parties<br>(Ongoing renewal)                                                                                |
|                           | Land                                                          | San Pedro, Bauan, Batangas                                 | Rented         | Good      | 450,000.00                                                | December 06, 2042           | SMCSL can exercise an option to purchase the reclaimed lot during the life of the lease period should the municipality decide to sell the property |
|                           | Land                                                          | Brgy. Tubod, Municipality of Sto. Tomas, La Union          | Rented         | Good      | 200,000.00                                                | August 31, 2022             | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Land                                                          | Bo. of Gua-an, Municipality of Leganes, Province of Iloilo | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land                                                          | Ouano Wharf, Looc, Manduae City                            | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land                                                          | Road Lot 3 Brgy. 128 Zone 010, Tondo, Manila               | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land                                                          | Santa Elena, Orion, Bataan                                 | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land, Land Improvement (e.g. Pier), Building, and Machineries | Namonitan, Santo Tomas, La Union                           | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Limay, Bataan                                              | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Coal Warehouse                                                | Namonitan, Santo Tomas, La Union                           | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land                                                          | Baluarte, Tagoloan Misamis Oriental                        | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Land                                                          | Lot 1118&1119 Puting Buhangin Orion Bataan                 | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Mactan, Cebu                                               | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Loboc, Iloilo                                              | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Tagoloan, Misamis Oriental                                 | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Pier                                                          | Iloilo                                                     | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Pier                                                          | Mandaue, Cebu                                              | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Mabini, Bauan, Batangas                                    | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Blk 12 (Lot 1) and Blk 14 (Lot 1-15)                          | Harbor, Manila                                             | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse                                                     | Zone 3, Upper Agusan, Cagayan de Oro City                  | Rented         | Good      | 1,746,360.00                                              | April 30, 2021              | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Warehouse                                                     | Brgy. Masaya, Rosario Batangas                             | Rented         | Good      | 1,802,822.50                                              | March 31, 2021              | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Warehouse (Pasacao 1 - 5)                                     | Bicol Oil Mill Cmpd. Balogo, Pasacao, Camarines Sur        | Rented         | Good      | 1,017,600.00                                              | December 31, 2021           | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Warehouse rental for Feedmill Plant                           | CDO                                                        | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse rental for Feedmill Plant                           | Iloilo                                                     | Owned          | Good      |                                                           |                             |                                                                                                                                                    |
|                           | Warehouse (Whses A, B, D1, D2)                                | Casisang, Malaybalay City, Bukidnon                        | Rented         | Good      | 390,000.00                                                | December 31, 2022           | Renewable upon mutual agreement of the parties                                                                                                     |
|                           | Foreshore Area                                                | Looc, Lapu Lapu City                                       | Rented         | Good      | 1,342.67                                                  | October 03, 2021            | Renewable after one (1) year or upon mutual agreement of the parties                                                                               |
|                           | Foreshore Area                                                | Looc, Lapu Lapu City                                       | Rented         | Good      | 1,398.79                                                  | October 03, 2021            | Renewable after one (1) year or upon mutual agreement of the parties                                                                               |
|                           | Foreshore Area                                                | Looc, Lapu Lapu City                                       | Rented         | Good      | 27,994.66                                                 | January 24, 2021            | Renewable after one (1) year or upon mutual agreement of the parties                                                                               |
|                           | Foreshore Area                                                | Looc, Lapu Lapu City                                       | Rented         | Good      | 1,763.17                                                  | October 03, 2021            | Renewable after one (1) year or upon mutual agreement of the parties                                                                               |
|                           | Foreshore Area                                                | Looc, Lapu Lapu City                                       | Rented         | Good      | 5,246.54                                                  | February 15, 2021           | Renewable after one (1) year or upon mutual agreement of the parties                                                                               |
|                           | Warehouse (NZU 1 & 2)                                         | Campo Islam, Zamboanga City                                | Rented         | Good      | 451,143.00                                                | December 31, 2023           | Renewable upon mutual agreement of the parties                                                                                                     |

| Company Name / Subsidiary                                                                    |                                                                                                                       | Address                                                                               | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------------------------------|
|                                                                                              | Space rental                                                                                                          | Baseco, Manila                                                                        | Rented         | Good      | 35,281.12                                                 | December 31, 2021                                       | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse (L2, L4, L5)                                                                                                | Door 7, Far East Cereals Bldg, Davao                                                  | Rented         | Good      | 478,170.00                                                | February 28, 2021                                       | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | 218 Don Jose Canciller Avenue, Cauayan City                                           | Rented         | Good      | 89,000.00                                                 | April 14, 2021 - July 15, 2021                          | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | Davao                                                                                 | Rented         | Good      | 2,108,971.43                                              | December 31, 2021                                       | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | 12 Zone 3, Kauswagan, CDO                                                             | Rented         | Good      | 1,606,500.00                                              | June 30, 2021                                           | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | Davao                                                                                 | Rented         | Good      | 280,000.00                                                | February 28, 2021                                       | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | Orion, Bataan                                                                         | Rented         | Good      | 198,000.00                                                | June 30, 2034                                           | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Warehouse                                                                                                             | Parang, Batangas                                                                      | Rented         | Good      | 408,000.00                                                | March 2021 to December 2021                             | Renewable upon mutual agreement of the parties                                            |
| SMC Shipping and Lighterage Corporation and SL Mariveles Drydocking and Shipyard Corporation |                                                                                                                       |                                                                                       |                |           |                                                           |                                                         |                                                                                           |
|                                                                                              | Building (Warehouses, Admin Building, Slipway, Seawall, Guardhouse)                                                   | Luzon Avenue, Baseco Compound, Mariveles, Bataan                                      | Owned          | Good      |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Baseco Compound Luzon Avenue Mariveles, Bataan                                        | Rented         | Good      | 713,878.97                                                | April 30, 2021                                          | Renewable upon mutual agreement of the parties                                            |
| SMC Shipping and Lighterage Corporation and Baseco Shipyard Corporation                      |                                                                                                                       |                                                                                       |                |           |                                                           |                                                         |                                                                                           |
|                                                                                              | Building (Warehouses, Admin Building, Improvements, Container Yard, Access Roads, Guardhouse, Truckscale, Equipments) | Yard 2, Engineering Island, Baseco Compound, Port Area, Manila City                   | Owned          | Good      |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Yard 2, Engineering Island, Baseco Compound, Port Area Manila                         | Rented         | Good      | 2,523,293.73                                              | December 31, 2021                                       | Renewable upon mutual agreement of the parties                                            |
| SMC Shipping and Lighterage Corporation and various subsidiaries                             |                                                                                                                       |                                                                                       |                |           |                                                           |                                                         |                                                                                           |
|                                                                                              | Buildings                                                                                                             | 2F to 6F VIP Bldg., Roxas Blvd., Ermita, Manila City                                  | Rented         | Good      | 303,571.43                                                | December 31, 2021                                       | Renewable upon mutual agreement of the parties                                            |
| SL Harbour Bulk Terminal Corporation                                                         |                                                                                                                       |                                                                                       |                |           |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Blk14 Lots 1-4 Manila Harbour Centre, Brgy. 128, Zone 10, Tondo District, Manila City | Owned          | Good      |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Blk15 Lots 8-9 Brgy. 128 Zone 010, Tondo, Manila                                      | Owned          | Good      |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Blk4 Lot 10-11 Road Lot 3, Brgy. 128 Zone 010, Tondo, Manila                          | Owned          | Good      |                                                           |                                                         |                                                                                           |
|                                                                                              | Land                                                                                                                  | Manila Harbour Center Lot 3 fronting Blk 15 lot 9 (BERTHING 5)                        | Rented         | Good      | 389,209.29                                                | April 29, 2024                                          | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Land                                                                                                                  | Manila Harbour Center Lot 3 fronting Blk 15 lot 9 (BERTHING 4)                        | Rented         | Good      | 294,747.55                                                | April 29, 2024                                          | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Land                                                                                                                  | Blk17 Lot 4 Manila Harbour Centre, Vitas, Tondo, Manila City                          | Rented         | Good      | 431,323.88                                                | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of the parties                                            |
|                                                                                              | Foreshore and Offshore Areas                                                                                          | Gracia, Tagoloan, Misamis Oriental (41,682 sqm)                                       | Rented         | Good      | 27,145.23                                                 | March 07, 2029                                          | May be renewed for 25 years upon terms and conditions mutually agreed upon by the parties |
|                                                                                              | Foreshore and Offshore Areas                                                                                          | Gracia, Tagoloan, Misamis Oriental (50,152 sqm)                                       | Rented         | Good      | 251,233.01                                                | March 07, 2029                                          | May be renewed for 25 years upon terms and conditions mutually agreed upon by the parties |



| Company Name / Subsidiary |                                                                                                            | Address                                                                                 | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                                               |
|---------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Foreshore and Offshore Areas, and Port Facility                                                            | Gracia, Tagoloan, Misamis Oriental (121,396 sqm)                                        | Rented         | Good      | 279,927.04                                                | August 03, 2022                                         | Renewable upon mutual agreement of the parties                                                                                                                                           |
|                           | Building (Admin Buildings, Terminals, Parking Shed, Loading Bay, Mini Laboratory, Storage Areas)           | Manila Harbour Centre, Brgy. 128, Zone 10, Tondo, Manila City                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Land Improvements (Walkways, Driveway, Ground Improvements, Access Roads, Catwalks, Perimeter Fence, Etc.) | Manila Harbour Centre, Brgy. 128, Zone 10, Tondo, Manila City                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Buildings (Admin Building, Bulk Office, Mini Laboratory, etc.)                                             | Limay, Bataan                                                                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Buildings (Admin Building, Mini Laboratory, etc.)                                                          | Tagoloan, Misamis Oriental                                                              | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Land                                                                                                       | Blk12 Rd 10 Cor Rd 21 New Harbour Center, Brgy. 128 Zone 010, Tondo, Manila             | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Land                                                                                                       | Blk14 Lot 5 Rd Lot 3 Cor Rd Lot 9 New Harbour Center, Brgy. 128 Zone 010, Tondo, Manila | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Land                                                                                                       | Barrio Kitang, Limay, Bataan (228,616 sqm)                                              | Rented         | Good      | 363,745.00                                                | December 31, 2021                                       | Renewable on a year to year basis for as long as the original lease agreement is in effect and under such terms and conditions based on the mutual consent and agreement of both parties |
|                           | Land                                                                                                       | Block 15, Lots 7, Manila Harbour Centre, Tondo, Manila                                  | Rented         | Good      | 1,348,725.33                                              | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of the parties                                                                                                                                           |
|                           | Land                                                                                                       | Block 15, Lots 1-6, Manila Harbour Centre, Tondo, Manila                                | Rented         | Good      | 1,140,108.03                                              | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of the parties                                                                                                                                           |
|                           | Leasehold Improvements (Driveway, Pier, Perimeter Fence, etc.)                                             | Limay, Bataan                                                                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Leasehold Improvements (Driveway, Pier, Perimeter Fence, etc.)                                             | Tagoloan, Misamis Oriental                                                              | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Machinery and Equipment (Fuel Tanks)                                                                       | Bataan Combined Cycle Power Plant, Barangay Luz, Kitang 2, Limay, Bataan                | Rented         | Good      | 3,733,455.00                                              | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of the parties                                                                                                                                           |
|                           | Machinery and Equipment (Fuel Tanks, Water Tanks, Tank Truck Loading Racks, etc.)                          | Manila Harbour Centre, Brgy. 128, Zone 10, Tondo, Manila City                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Machinery and Equipment (Fuel Tanks, Water Tanks, Tank Truck Loading Racks, etc.)                          | Limay, Bataan                                                                           | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |
|                           | Machinery and Equipment (Fuel Tanks, Water Tanks, Tank Truck Loading Racks, etc.)                          | Tagoloan, Misamis Oriental                                                              | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                          |



| Company Name / Subsidiary |                                               | Address                                                                                                 | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract                             | Terms of Renewal / Options                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------|-----------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                           | Land                                          | Land with an area of 5,167.53 sqm located at Manila Harbour Center, Blk 15, Lot 7.                      | Rented         | Good      | 1,140,108.03                                              | December 09, 2021                                       | Prior to the termination of the contract, the lessor shall conduct a public bidding, wherein the lessee may participate. The lessee shall have the right to equal the highest bid if he manifests such right in writing not more than 5 days from the opening of the bid which shall be the basis for the renewal of the lease contract. If the lessee did not participate in the bidding and there is no other bidder, the lessee shall equal the minimum bid price to qualify for award. This right of the lessee can be exercised only once. |
|                           | Land                                          | 386,755 sqm land in Manila Harbour Center                                                               | Rented         | Good      | 155,132.02                                                | April 30, 2021                                          | Renewable upon mutual agreement of the parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                           | Land                                          | The lease agreement pertains to lease of land in Manila Harbor Blk 4 lot 10 and 11.                     | Rented         | Good      | 1,072,000.00                                              | Continuing unless terminated and agreed by both parties | Renewable upon mutual agreement of the parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                           | Land                                          | Road Lot 3 fronting lot 10 and 11 of block 4, Manila Harbour Centre, Tondo, Manila City                 | Rented         | Good      | 184,525.46                                                | May 14, 2023                                            | Renewable upon mutual agreement of the parties                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                           | MG8 Terminal Inc.                             |                                                                                                         |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Road Lot 19 (New Harbor Center) Brgy. 128 Zone 010, Tondo, Manila                                       | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Lucanin, Mariveles, Bataan                                                                              | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Mabini, Batangas                                                                                        | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Lot 10181, CAD-584, C-24 San Pedro, Bauan Cadastre                                                      | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Lot 10184-A, of the sub. Plan, Psd-04-148187 being a portion of Lot - 10184 Cad 584, Bauan Cadastre     | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Lot 14038-B of the sub. Plan Psd-04-195256 being portion of Lot 14038 Cad 584, Bauan Cad., LRC Rec. No. | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Lot 10156 Cad-584 San Pedro, Bauan, Batangas TCT 05-0034-00532                                          | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land and pier and port facilities             | Various land in Bauan, Batangas                                                                         | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Warehouse 1 , 2, 3                            | Mabini and Bauan, Batangas                                                                              | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | SMC Shipyard Cebu Land Inc.                   |                                                                                                         |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land and Building                             | Dad Cleland Ave., Looc, Lapu Lapu City                                                                  | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>5</b>                  | <b>SM BULK WATER CO., INC.</b>                |                                                                                                         |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Bobulusan, Guinobatan, Albay                                                                            | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Land                                          | Brgy. Batang, Ligao City                                                                                | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>6</b>                  | <b>SMC STOCK TRANSFER SERVICE CORPORATION</b> |                                                                                                         |                |           |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Office Space                                  | Units 1505-1507, Robinsons Equitable Tower, ADB Avenue, corner Poveda, Pasig City                       | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|                           | Parking Space                                 | Parking Slots 31-33, Robinsons Equitable Tower, ADB Avenue, corner Poveda, Pasig City                   | Owned          | Good      |                                                           |                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

| Company Name / Subsidiary |                                                                     | Address                                                                  | Rented / Owned | Condition             | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options                     |
|---------------------------|---------------------------------------------------------------------|--------------------------------------------------------------------------|----------------|-----------------------|-----------------------------------------------------------|-----------------------------|------------------------------------------------|
| 7                         | <b>SAN MIGUEL PAPER PACKAGING CORPORATION</b>                       | Dr. A Santos Avenue, Sucat, Parañaque City                               | Owned          | Good                  |                                                           |                             |                                                |
| 8                         | <b>SAN MIGUEL INTEGRATED LOGISTICS SERVICES INC. AND SUBSIDIARY</b> |                                                                          |                |                       |                                                           |                             |                                                |
|                           | San Miguel Integrated Logistics Services Inc. and subsidiary        |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Warehouse                                                           | 45 Muelle Dela Industria Binondo Manila                                  | Owned          | Good                  |                                                           |                             |                                                |
|                           | Land and Building                                                   | Laguna                                                                   | Owned          | Good                  |                                                           |                             |                                                |
|                           | Ulas Warehouse                                                      | Davao                                                                    | Owned          | Good                  |                                                           |                             |                                                |
|                           | Land                                                                | Purok 5, Brgy Rawis Legazpi City                                         | Owned          | Good                  |                                                           |                             |                                                |
|                           | Land                                                                | A. Mabini Street San Juan City                                           | Owned          | Good                  |                                                           |                             |                                                |
|                           | Land                                                                | Fe Martinez St. Brgy Anghit Daet Camarines Norte                         | Owned          | Good                  |                                                           |                             |                                                |
|                           | Petrofuel Logistics Inc                                             |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Office                                                              | SMC Head Office Complex, #40 San Miguel Avenue, Mandaluyong City         | Owned          | Good                  |                                                           |                             |                                                |
| 9                         | <b>SAN MIGUEL INTEGRATED MERCHANDISING SERVICES INC.</b>            |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Office                                                              | A.S. Fortuna Street, Bakilid, Mandaue City                               | Rented         | Good                  | 55,440.00                                                 | January 31, 2021            | Renewable upon mutual agreement of the parties |
|                           | Office                                                              | Mabini Suites Bldg., Mabini St., Corner Quirino Ave., Davao City         | Rented         | Good                  | 42,000.00                                                 | June 30, 2021               | Renewable upon mutual agreement of the parties |
|                           | Office                                                              | 5Th Floor, Citibank Center Building, 8741 Paseo De Roxas, Makati City    | Rented         | Good                  | 416,833.95                                                | January 31, 2021            | Renewable upon mutual agreement of the parties |
|                           | Office                                                              | Blk 6 Lot 15-16 Friendship Hiway, Korean Town Brgy. Anunas, Angeles City | Rented         | Good                  | 58,035.71                                                 | July 7, 2021                | Renewable upon mutual agreement of the parties |
| 8                         | <b>SAN MIGUEL EQUITY INVESTMENTS INC. AND SUBSIDIARIES</b>          |                                                                          |                |                       |                                                           |                             |                                                |
|                           | San Miguel Equity Investments Inc.                                  |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Office Space                                                        | No. 40 San Miguel Avenue, Mandaluyong City                               | Owned          | Good                  |                                                           |                             |                                                |
|                           | Ionic Cementworks Industries Inc.                                   |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Pagbilao, Quezon                                                         | Owned          | Good                  |                                                           |                             |                                                |
|                           | Arthocem Concrete Industries Inc.                                   |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Sariaya, Quezon                                                          | Owned          | Good                  |                                                           |                             |                                                |
|                           | Southstrong Cement Industries Corp.                                 |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Leganes, Iloilo                                                          | Owned          | Good                  |                                                           |                             |                                                |
|                           | Land                                                                | Tayasan, Negros Oriental                                                 | Owned          | Good                  |                                                           |                             |                                                |
|                           | Primero Cemento Industries Corp.                                    |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Agno, Pangasinan                                                         | Owned          | Good                  |                                                           |                             |                                                |
|                           | Oro Cemento Industries Corporation                                  |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Darong, Sta. Cruz, Davao del Sur                                         | Owned          | Good                  |                                                           |                             |                                                |
|                           | Cement Grinding Plant                                               | Darong, Sta. Cruz, Davao del Sur                                         | Owned          | On-Going Construction |                                                           |                             |                                                |
|                           | E-Novate Holdings, Inc.                                             |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land                                                                | Cagniog and Trinidad, Surigao City                                       | Owned          | Good                  |                                                           |                             |                                                |
|                           | San Miguel Northern Cement, Inc.                                    |                                                                          |                |                       |                                                           |                             |                                                |
|                           | Land (location of cement plant)                                     | Brgy. Labayug, Sison Pangasinan                                          | Owned          | Good                  |                                                           |                             |                                                |
|                           | Cement Plant                                                        | Brgy. Labayug, Sison Pangasinan                                          | Owned          | On-going Construction |                                                           |                             |                                                |
|                           | Land                                                                | Brgy. Inoman, Pozorrubio, Pangasinan                                     | Owned          | Good                  |                                                           |                             |                                                |

| Company Name / Subsidiary |                             | Address                                                          | Rented / Owned | Condition | Monthly Rental<br>(In PhP, Unless<br>Otherwise Indicated) | Expiry of Lease<br>Contract | Terms of Renewal / Options      |
|---------------------------|-----------------------------|------------------------------------------------------------------|----------------|-----------|-----------------------------------------------------------|-----------------------------|---------------------------------|
|                           | Northern Cement Corporation |                                                                  |                |           |                                                           |                             |                                 |
|                           | Head Office Space           | 3rd Flr 155 Eda Building, 155 Edsa Brgy Wack Wack Mandaluyong    | Owned          | Good      |                                                           |                             |                                 |
|                           | Cement Plant                | Brgy. Labayug, Sison Pangasinan                                  | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Labayug, Inmalog - Sison Pangasinan                        | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Bila And Paldit - Sison, Pangasinan                        | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Amagbagan, Sison, Pangasinan                               | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Bobonan, Inoman, Sugcong - Pozorrubio, Pangasinan          | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Lunec, Malasiqui, Pangasinan                               | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Asin, Malasiqui, Pangasinan                                | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. La Paz, Villasis And Mangan Dampay - Malasiqui, Pangasinan | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Mangan Dampay, Taloyan, Bacudao - Malasiqui, Pangasinan    | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Ansagan, Tuba, Benguet                                     | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Tubod And Namonitan - Sto Tomas, La Union                  | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Namonitan And Casantaan - Sto Tomas, La Union              | Owned          | Good      |                                                           |                             |                                 |
|                           | Land                        | Brgy. Paldit, Sison, Pangasinan                                  | Rented         | Good      | 72,930.38                                                 | December 31, 2025           | Renewable subject to conditions |
|                           | Land                        | Brgy Olympia, Makati City                                        | Rented         | Good      | 32,417.55                                                 | December 31, 2024           | Renewable subject to conditions |

Note: All owned properties are free of liens and encumbrances, except for the following:

<sup>(a)</sup> The Power Plant, including all related facilities therein, are mortgaged in favor of the lenders to secure the loan obligation of SCPC;

<sup>(b)</sup> The Power Plant, including all related facilities therein, are mortgaged in favor of the lenders to secure the loan obligation of SMCPC; and

<sup>(c)</sup> The Power Plant, including all related facilities therein, and the land are mortgaged in favor of the lenders to secure the loan obligation of MPPCL.