



SAN MIGUEL CORPORATION

40 San Miguel Avenue Mandaluyong City, Philippines 1550

Shelf Registration in the Philippines of

**up to 533,333,334 Series 2 Preferred Shares
to be offered within a period of three (3) years**

at an Offer Price of Php75.00 per Preferred Share

to be listed and traded on the Main Board of The Philippine Stock Exchange, Inc.

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 8 October 2020

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

This Prospectus relates to the shelf registration and continuous offer by way of sale in the Philippines (the “**Offer**”) of up to 533,333,334 cumulative, non-voting, non-participating, non-convertible, redeemable, Peso-denominated, perpetual Series 2 Preferred Shares (the “**Offer Shares**” or “**Series 2 Preferred Shares**”) of San Miguel Corporation (“**SMC**”, the “**Company**”, the “**Parent Company**” or the “**Issuer**”), a corporation duly organized and existing under Philippine law, subject to the registration requirements of the Securities and Exchange Commission of the Philippines (the “**SEC**”). The Offer Shares will be sold at a subscription price of ₱75.00 per share (the “**Offer Price**”), or for a total offer size of up to ₱40,000,000,050.00).

The Offer Shares shall be issued in tranches within a period of three (3) years (the “**Shelf Period**”), at an offer price of ₱75.00 per share. The Offer Shares will be issued from the Series “2” treasury shares of the Company. The specific terms of the Offer Shares with respect to each issue tranche thereof shall be determined by the Company taking into account prevailing market conditions and shall be provided at the time of the relevant offering.

The Offer Shares are being offered for subscription solely in the Philippines.

On August 6, 2020, the Board of Directors of the Company (the “**Board of Directors**”) authorized the sale and offer of up to 533,333,334 Series 2 Preferred Shares, at an offer price of ₱75.00 per share under a shelf registration to be issued within a period of three (3) years from the date of effectivity of the Registration Statement, under such terms and conditions as the management of SMC may deem advantageous to it (the “**Enabling Resolutions**”). The approval by the Board of Directors of the Enabling Resolutions to issue Series 2 Preferred Shares is pursuant to the amended Articles of Incorporation of the Company, which allowed the issuance of Series 2 Preferred Shares through Enabling Resolutions.

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 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 the Board of Directors may deem relevant. While there is no assurance that SMC will declare dividends on the Offer Shares in the future, SMC has consistently paid quarterly cash dividends to both its common and preferred shareholders, details of which are found on page 180.

The date of declaration of cash dividends on the Offer Shares will be subject to the discretion of the Board of Directors to the extent permitted by law. The declaration and payment of dividends (except stock dividends) do not require any further approval from the shareholders of SMC.

As and if cash dividends are declared by the Board of Directors, and in accordance with the Enabling Resolutions, cash dividends on the Offer Shares shall be set out in the Offer Supplement, as defined in this Prospectus, in all cases calculated for each share by reference to the Offer Price thereof in respect of each Dividend Period (each, the “**Dividend Rate**” for the relevant subseries). Subject to limitations on the payment of cash dividends as described in the section on the “*Terms of the Offer*”, dividends on the Offer Shares will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a “*Dividend Payment Date*”), which date shall be any day within the period commencing on (and including) the last date of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A “*Dividend Period*” shall be the period commencing on the relevant Issue Date, as defined in the section on “*Terms of the Offer*”, and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of, the immediately succeeding Dividend Period; provided that the first Dividend Period of the Offer Shares shall be the period commencing on the relevant Issue Date and ending on the last day of the then current dividend period for the outstanding Series 2 Preferred Shares. If a Dividend Payment Date occurs after the end of a Dividend Period, there shall be no adjustment as to the amount of dividends to be paid.

The dividends on the Offer Shares will be calculated on a 30/360-day basis.

If the Dividend Payment Date is not a Banking Day, dividends will be paid on the next succeeding Banking Day, without adjustment as to the amount of dividends to be paid.

For the purpose of the first dividend payment of the Offer Shares, the same will be paid on such date as to synchronize with the payment of dividends for the outstanding Preferred Shares.

The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where (a) payment of the cash dividend would cause SMC to breach any of its financial covenants or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Series 2 Preferred Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Series 2 Preferred Shares and that have an equal right to dividends as the Series 2 Preferred Shares.

Upon listing of the Offer Shares on The Philippine Stock Exchange, Inc. (“PSE”), SMC may purchase the Offer Shares which are then currently tradeable at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other outstanding preferred shares of the Company. The Offer Shares so purchased may be redeemed (pursuant to their terms and conditions as set out in the Prospectus and this Offer Supplement) and cancelled or kept as treasury shares, as applicable. The Series “2” Preferred Shares are re-issuable.

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

No dealer, salesman or any other 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 that may be engaged by the Company for each tranche of the Offer (the “Underwriters”).

The distribution of this Prospectus and the offer and sale of the Offer Shares 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.

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 Offer Shares. Each person contemplating an investment in the Offer Shares 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 Offer Shares. A person contemplating an investment in the Offer Shares 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 Offer Shares 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 Offer Shares, see the section on “Risks Factors” starting on page 39.

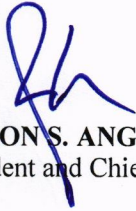
The Company owns land as identified in the section on Description of Property on page 174. In connection with the ownership of private land, the Philippine Constitution states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations 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.

The listing of the Offer Shares is subject to the approval of the Board of Directors of the PSE. An application to list the Offer Shares has been filed with the PSE, but has not yet been approved by the Board of Directors of the PSE. If approved by the PSE, such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of the Prospectus.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION
CONTAINED HEREIN ARE TRUE AND CURRENT

SAN MIGUEL CORPORATION

By:



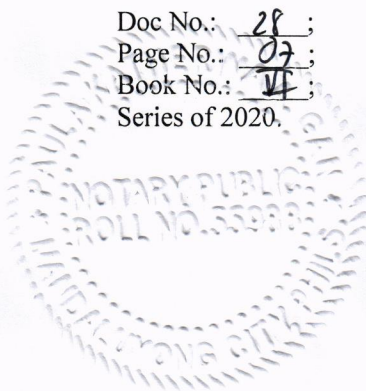
RAMON S. ANG

President and Chief Operating Officer

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

SUBSCRIBED AND SWORN to before me this OCT 08 2020 in Mandaluyong City, affiant
exhibiting to me his Passport No. P2247867A expiring on May 21, 2029 as competent evidence of
identity.

Doc No.: 28 ;
Page No.: 07 ;
Book No.: VI ;
Series of 2020.



PAULA KATHERINA A. GAN

Commission No. 0308-19

Notary Public for Mandaluyong City

Until December 31, 2020

SMC, 40 San Miguel Ave., Mandaluyong City

Roll No. 55988

PTR No. 4324707; 01/07/20; Mandaluyong City

IBP Lifetime Number No. 013353; 02/05/15, QC

MCLE Compliance No. VI-0019930; 04/14/22; Pasig City

TABLE OF CONTENTS

TABLE OF CONTENTS.....	6
FORWARD-LOOKING STATEMENTS.....	7
DEFINITION OF TERMS.....	8
EXECUTIVE SUMMARY	15
SUMMARY OF FINANCIAL INFORMATION	19
CAPITALIZATION.....	22
TERMS OF THE OFFER	23
DESCRIPTION OF THE OFFER SHARES	30
RISK FACTORS.....	39
USE OF PROCEEDS	74
DETERMINATION OF OFFER PRICE.....	75
DILUTION	76
PLAN OF DISTRIBUTION	77
THE COMPANY	79
DESCRIPTION OF PROPERTY.....	174
LEGAL PROCEEDINGS.....	175
OWNERSHIP AND CAPITALIZATION	176
MARKET PRICE OF AND DIVIDENDS ON THE EQUITY OF SMC AND RELATED SHAREHOLDER MATTERS.....	179
MANAGEMENT	187
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	196
SELECTED FINANCIAL INFORMATION AND OTHER DATA	198
MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION	201
EXTERNAL AUDIT FEES AND SERVICES	260
INTEREST OF NAMED EXPERTS AND COUNSEL	261
TAXATION	262
REGULATORY FRAMEWORK.....	267
THE PHILIPPINE STOCK EXCHANGE.....	302
APPENDIX	308

FORWARD-LOOKING STATEMENTS

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, telecommunications, 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

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
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 Offer Shares, 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
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
BOC.....	Bank of Commerce
BPG.....	Business Procurement Group
BTO.....	Build-Transfer-Operate
BSP.....	Bangko Sentral ng Pilipinas
Banking Day.....	A day other than a public non-working holiday, Saturday or Sunday on which the facilities of the Philippine 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.
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.
CMMTC.....	Citra Metro Manila Tollways Corporation
COC.....	Coal Operating Contract
CTCIL.....	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
EMEPML.....	ExxonMobil Exploration and Production Malaysia, Inc.
EPIRA.....	Electric Power Industry Reform Act of 2001
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.
IPP.....	Independent Power Producer
IPPA.....	Independent Power Producer Administrator
ISO.....	International Organization for Standardization
K-Water.....	Korea Water Resources Corporation
KEILCO.....	KEPCO Iljian Corporation
Kirin.....	Kirin Holdings Company, Limited
KLIA.....	Kuala Lumpur International Airport
KLIA 2.....	Kuala Lumpur International Airport Terminal 2
KWPP	KWPP Holdings 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.
Meat Inspection Code.....	The Meat Inspection Code of the Philippines
Meralco.....	Manila Electric Company
Mincorr.....	Mindanao Corrugated Fibreboard, Inc
MPGC.....	Mariveles Power Generation Corporation

MRT-7.....	Metro Rail Transit Line 7
MTDME.....	MTD Manila Expressways, Inc.
MW.....	Mega-watt
NAIAx.....	NAIA Expressway
NCR	National Capital Region of the Philippines
NGCP.....	National Grid Corporation of the Philippines
NMIA.....	New Manila International Airport
NPC.....	National Power Corporation of the Philippines
NYG.....	Nihon Yamamura Glass Company, Ltd.
Offer Supplement.....	The document which sets out the terms and conditions for each tranche of the Offer Shares
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
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
PIDC.....	Private Infra Dev Corporation
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 8 October 2020 and any amendments, supplements and addenda thereto for the offer and sale to the public of the Preferred Shares within the RS Effectivity Period. As the context may require, the

	term includes the Offer Supplement.
PSA.....	Philippines Standards on Auditing
PSALM.....	Power Sector Assets and Liabilities Management Corporation
PSC.....	Power supply contract
PSE.....	The Philippine Stock Exchange, Inc.
PTSMPFI.....	PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah)
Purefoods-Hormel.....	The Purefoods-Hormel Company, Inc.
PVEL.....	PowerOne Ventures Energy Inc.
RCOA.....	Retail Competition and Open Access
Registrar, Paying Agent or Stock Transfer Agent.....	SMC Stock Transfer Service Corporation. The term includes, wherever the context permits, all other Person or Persons for the time being acting as registrar or registrars under the Master Registry and Paying Agency Agreement.
Registration Statement.....	The registration statement filed with the SEC in connection with the offer and sale to the public of the Preferred Shares
RES.....	Retail Electricity Supplier
Revised Corporation Code.....	Republic Act No. 11032, otherwise known as the Revised Corporation Code of the Philippines
RMP-2.....	Petron Bataan Refinery Master Plan Phase -2 Upgrade
RS Effectivity Period.....	Subject to applicable regulations, a period of three years from the effective date of the Registration Statement within which the Preferred Shares 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
SCCP.....	The Securities Clearing Corporation of the Philippines
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 Series 2 Preferred Shares, during which the Offer Shares 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.
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
Vega.....	Vega Telecom Inc.
Vertex.....	Vertex Tollways Devt. Inc.
VTDL.....	Vertex Tollways Devt Inc.
WESM.....	Philippine Wholesale Electricity Spot Market

EXECUTIVE SUMMARY

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 5.5% of the Philippine GDP in 2019 based on data from the SMC consolidated revenues in 2019 divided by Philippine’s total revenue sourced from Philippine Statistics Authority.

Originally founded in 1890 as a single 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, 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 July 31, 2020, SMC had a market capitalization of ₱236,006 million, with a common share price of ₱99.00.

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 and a full range of refined petroleum products, 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, 2019 were ₱1,020,502 million, ₱201,687 million and ₱149,755 million, respectively.

For the six months ended June 30, 2019, consolidated sales was ₱509,495 million, gross profit was ₱100,877 million and EBITDA was ₱79,876 million compared to consolidated sales of ₱352,796 million, gross profit was ₱53,114 million and EBITDA was ₱42,186 million for the six-month period ended June 30, 2020.

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, 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 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 July 31, 2020, had a market capitalization of ₱381,145 million, with a common share price of ₱64.50. As of June 30, 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, San Miguel Yamamura Asia Corporation (“**SMYAC**”), 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 polyethylene terephthalate (“**PET**”) bottles and aluminum cans. As of June 30, 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). As of June 30, 2020, SMC’s ownership interest in SMYPC was 65%.

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**”), the largest and one of the most modernized, which the Company believes supplies approximately 30% 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, liquified petroleum gas (“**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” and, as of July 31, 2020, had a market capitalization of ₱29,157 million, with a common share price of ₱3.11. As of June 30, 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 4,362 MW of combined capacity, as of June 30, 2020. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020), SMC Global Power’s combined capacity increased to 4,697 MW. 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 the ERC Resolution No. 05, Series of 2019 dated June 18, 2019 (“**ERC Resolution on Grid Market Share Limitation**”), SMC Global Power believes that its combined installed capacity comprises approximately 19% of

the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid as of June 30, 2020. As of June 30, 2020, SMC's ownership interest in SMC Global Power was 100%.

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 and 2, the Southern Luzon Arterial Road tollway (“**STAR**”), the Tarlac-Pangasinan-La Union Expressway (“**TPLEX**”) and the Ninoy Aquino International Airport Expressway (“**NAIAx**”). Ongoing projects include Skyway Stages 3 and 4, the extension of SLEX – Toll Road 4 (“**SLEX-TR4**”) and the Mass Rail Transit Line 7 (“**MRT-7**”), and New Manila International Airport (“**NMIA**”). 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 June 30, 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**”), car distributorship through SMC Asia Car Distributors Corp., and banking services through Bank of Commerce (“**BOC**”).

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 Shares:

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 nature of the Offer Shares as perpetual securities, the absence of a liquid secondary market and volatility of the Offer Shares and other risks relating to the Offer Shares.

(For a more detailed discussion, see “Risk Factors” on page 39)

Use of Proceeds

The Offer Price shall be at ₱75.00 per share. Out of the gross proceeds, SMC shall deduct fees, commissions, and expenses for each tranche of the Offer. The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.

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 PSE, and made available for download from the website of SMC, specifically in <http://www.sanmiguel.com.ph>.

The Offer Supplement shall contain the following information:

- (a) timetable, offer size of the specific offering, the applicable dividend 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 Offer Shares 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	August 18, 2020
Receipt of SEC Pre-Effective Approval	September 29, 2020
Shelf Registration Period	October 12, 2020 to October 12, 2023

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

SUMMARY OF FINANCIAL INFORMATION

Prospective purchasers of the Offer Shares 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, 2019, 2018 and 2017 are derived from the audited financial statements of SMC, including the notes thereto, which are found as Appendix “B” of this Prospectus. The detailed financial information for the three (3) years ended December 31, 2019, 2018 and 2017 are found on Appendix “B” of this Prospectus and the six (6) months ended June 30, 2020 and 2019 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, 2019, 2018 and 2017 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 financial and operating information of SMC presented below as of and for the six months ended June 30, 2020 and 2019 were derived from the unaudited consolidated financial statements of SMC prepared in compliance with Philippine Accounting Standards (“PAS”) 34, “Interim Financial Reporting”. The information below should be read in conjunction with the consolidated financial statements of SMC and the related notes thereto, which are included in Appendices “A” and “B” 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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(Audited)			(Unaudited)	
	(in millions)				
	₱	₱	₱	₱	₱
Sales.....	826,086	1,024,943	1,020,502	509,495	352,796
Cost of sales.....	644,221	825,748	818,815	408,618	299,682
Gross Profit.....	181,865	199,195	201,687	100,877	53,114
Selling and Administrative expenses	(70,823)	(82,110)	(85,972)	(43,261)	(38,186)
Interest expense and other financing charges.....	(35,714)	(45,496)	(56,019)	(28,166)	(26,571)
Interest income.....	4,525	7,192	10,675	5,576	3,794
Equity in net earnings (losses) of associates and joint ventures.....	297	(289)	105	171	(54)
Gain (loss) on sale of investments and property and equipment	879	252	(237)	65	(404)
Other income (charges) – net.....	154	(5,628)	6,848	3,531	6,309
Income (Loss) before income tax.....	81,183	73,116	77,087	38,793	(1,998)
Income tax expense.....	26,369	24,468	28,513	12,641	1,990
Net income (Loss).....	54,814	48,648	48,574	26,152	(3,988)
Attributable to:					
Equity holders of SMC	28,225	23,077	21,329	13,232	(7,593)
Non-controlling interests	26,589	25,571	27,245	12,920	3,605
	54,814	48,648	48,574	26,152	(3,988)
Earnings (loss) per common share attributable to equity holders of SMC					
Basic and Diluted.....	9.00	7.00	6.00	4.02	(4.50)

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	₱
ASSETS				
Current Assets				
Cash and cash equivalents	206,073	243,150	286,457	344,423
Trade and other receivables — net.....	116,040	129,893	136,488	124,560
Inventories	102,575	118,946	127,463	93,512
Current portion of biological assets — net.....	3,422	4,245	4,151	3,449
Prepaid expenses and other current assets.....	78,228	92,043	86,585	92,349
	506,338	588,277	641,144	658,293
Assets held for sale	—	—	—	—
Total Current Assets	506,338	588,277	641,144	658,293
Noncurrent Assets				
Investments and advances — net	35,537	50,519	52,861	52,956
Investment in equity and debt instruments.....	42,069	42,126	42,055	41,787
Property, plant and equipment — net	523,586	594,372	463,614	480,605
Rights-of-use assets — net.....	—	—	173,604	171,159
Investment property — net	7,162	31,829	51,779	52,707
Biological assets — net of current portion.....	2,695	2,844	2,808	2,833
Goodwill — net	60,124	130,852	130,073	129,498
Other intangible assets — net	134,438	146,608	149,014	154,766
Deferred tax assets	18,412	19,249	18,052	18,341
Other noncurrent assets — net	49,282	69,966	92,730	89,104
Total Noncurrent Assets	873,305	1,088,365	1,176,590	1,193,756
Total assets	1,379,643	1,676,642	1,817,734	1,852,049
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	149,863	184,024	169,492	165,356
Accounts payable and accrued expenses.....	136,993	149,764	176,037	142,176
Finance lease liabilities — current portion	16,889	19,699	24,979	25,492
Income and other taxes payable	16,653	19,901	21,185	22,022
Dividends payable.....	4,429	4,042	4,116	3,936
Current maturities of long-term debt — net of debt issue costs	36,944	55,697	43,808	54,964
Total Current Liabilities	361,771	433,127	439,617	413,946
Noncurrent Liabilities				
Long-term debt — net of current maturities and debt issue costs	362,548	561,918	638,996	732,822
Deferred tax liabilities	20,674	22,899	25,265	21,839
Finance lease liabilities — net of current portion	138,008	122,367	117,269	104,686
Other noncurrent liabilities — net of current portion	25,580	24,384	22,192	23,972
Total Noncurrent Liabilities	546,810	731,568	803,722	883,319
Total Liabilities	908,581	1,164,695	1,243,339	1,297,265
Equity				
Equity Attributable to Equity Holders of SMC				
Capital stock — common.....	16,435	16,443	16,443	16,443
Capital stock — preferred.....	10,187	10,187	10,187	10,187
Additional paid-in capital	177,750	177,938	177,938	177,938
Redeemable Perpetual Securities.....	—	—	—	10,702
Equity reserves.....	(4,799)	21,513	14,390	10,961
Retained earnings:				
Appropriated	66,890	72,820	56,689	56,216

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	₱
Unappropriated	143,335	148,345	173,092	160,883
Treasury stock.....	(109,501)	(109,501)	(116,283)	(137,239)
Total Equity Attributable to Equity Holders of				
SMC	300,297	337,745	332,456	306,091
Non-controlling interest.....	170,765	174,202	241,939	248,693
Total Equity.....	471,062	511,947	574,395	554,784
	<u>1,379,643</u>	<u>1,676,642</u>	<u>1,817,734</u>	<u>1,852,049</u>

Consolidated Statement of Cash Flows Data

	For the years ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(Audited)			(Unaudited)	
	(in millions)				
	₱	₱	₱	₱	₱
Net cash provided by (used in):					
Operating activities.....	79,736	59,772	92,195	47,923	13,500
Investing activities.....	(54,132)	(196,313)	(112,040)	(47,312)	(35,265)
Financing activities.....	(22,386)	174,015	66,756	26,768	84,121
Effect of exchange rates changes in cash and cash equivalents	(298)	(397)	(3,604)	(3,104)	(4,390)
Net increase in cash and cash equivalents.....	2,920	37,077	43,307	24,275	57,966
Cash and cash equivalents at beginning of period	203,153	206,073	243,150	243,150	286,457
Cash and cash equivalents at end of period.....	206,073	243,150	286,457	267,425	344,423

CAPITALIZATION

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

TERMS OF THE OFFER

The following does not purport to be a complete listing of all the rights, obligations and privileges attaching to or arising from the Offer Shares. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective shareholders are enjoined to perform their own independent investigation and analysis of SMC and the Offer Shares. Each prospective shareholder must rely on its own appraisal of SMC and the Offer Shares and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Offer Shares and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective shareholder's independent evaluation and analysis.

Issuer	San Miguel Corporation (“SMC”, the “Company”)
The Offer	<p>SMC may offer from time to time, within a period of three (3) years, up to 533,333,334 Series 2 Preferred Shares in one (1) or more tranches in such amounts and with such terms as may be determined by SMC in light of prevailing market and other conditions at the time of sale.</p> <p>For each tranche of the Offer, the Company shall distribute an Offer Supplement which shall be disclosed to the public through the filing with the SEC and the PSE and made available for download from the website of SMC specifically, in http://www.sanmiguel.com.ph.</p> <p>The Offer Supplement will contain the following information:</p> <ul style="list-style-type: none">(a) timetable, offer size of the specific offering, the applicable dividend rate and the mode of settlement of the Offer;(b) capital structure of the Company after the Offer;(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.
Instrument	Series 2 cumulative, non-voting, non-participating, non-convertible, redeemable, Peso-denominated, perpetual Preferred Shares (the “ Series 2 Preferred Shares ”).
Par Value	The Series 2 Preferred Shares have a par value of ₱5.00 per share.
Offer Size	533,333,334 Series 2 Preferred Shares, to be issued in one or more subseries.
Offer Price	The Offer Shares shall be offered at a price of ₱75.00 per share.
Registration and Listing	The Offer Shares will be registered with the Securities and Exchange Commission (“SEC”) under a shelf registration and listed on The Philippine Stock Exchange, Inc. (“PSE”), subject to compliance with SEC regulations and PSE listing rules.
Issue Date	The issue date as set out in the relevant Offer Supplement.
Listing Date	The listing date as set out in the relevant Offer Supplement.

Use of Proceeds	The use of proceeds for each tranche of the Offer will be set out in the relevant Offer Supplement.
Dividend Rate	The dividend rate for each tranche of the Offer shall be set out in the relevant Offer Supplement.
Dividend Rate Step-Up	Unless the Offer Shares are redeemed by SMC on the applicable Optional Redemption Dates (as defined below under “ Optional Redemption and Purchase ”), the Dividend Rate shall be adjusted in accordance with the terms as set out in the Offer Supplement.
Conditions on Payment of Cash Dividends	<p>The declaration of cash dividends will be subject to the discretion of the Board of Directors to the extent permitted by law.</p> <p>The Board of Directors will not declare and pay cash dividends on any Dividend Payment Date where:</p> <ul style="list-style-type: none"> (a) payment of the cash dividend would cause SMC to breach any of its financial covenants; or (b) the profits available to SMC to distribute as cash dividends are not sufficient to enable SMC to pay in full both the cash dividends on the Offer Shares and the dividends on all other classes of the shares of SMC that are scheduled to be paid on or before the same date as the cash dividends on the Offer Shares and that have an equal right to dividends as the Offer Shares. <p>If the profits available to distribute as dividends are, in the opinion of the Board of Directors, not sufficient to enable SMC to pay in full on the same date both cash dividends on the Offer Shares and the dividends on other shares that have an equal right to dividends as the Offer Shares, SMC is required (i) to pay in full, or to set aside an amount equal to, all dividends scheduled to be paid on or before that Dividend Payment Date on any shares with a right to dividends ranking in priority to that of the Offer Shares; and (ii) to pay cash dividends on the Offer Shares and any other shares ranking equally with the Offer Shares as to participation in profits pro rata to the amount of the cash dividends scheduled to be paid to them. The amount scheduled to be paid will include the amount of any dividend payable on that date and any arrears on past cumulative dividends on any shares ranking equal in the right to dividends with the Offer Shares.</p> <p>Any such cash dividends deferred or not declared in accordance with the above provisions shall constitute “Arrears of Dividends” which shall accrue cash dividends at the prevailing Dividend Rate. The profits available for distribution are, in general and with some adjustments, equal to the accumulated realized profits of SMC less accumulated realized loss.</p> <p>Cash dividends on the Offer Shares will be cumulative. If for any reason the Board of Directors of SMC does not declare a cash dividend on the Offer Shares for a Dividend Period, SMC will not pay a cash dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which cash dividends are declared, holders of the Offer Shares will receive the accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends to</p>

the holders of the Offer Shares prior to such Dividend Payment Date.

Holders of the Offer Shares shall not be entitled to participate in any other or further dividends, cash, property or stock beyond the dividends specifically payable on the Offer Shares.

SMC will covenant that, in the event:

- (a) any cash dividends due with respect to any Series “1” and Series “2” Preferred Shares then outstanding for any period are not declared and paid in full when due;
- (b) where there remains outstanding Arrears of Dividends; or
- (c) any other amounts payable under the terms and conditions of the Offer Shares described in the Prospectus are not paid in full when due for any reason,

then it will not declare or pay any dividends or other distributions in respect of, or repurchase or redeem, securities ranking *pari passu* with, or junior to, the Offer Shares (or contribute any moneys to a sinking fund for the redemption of any securities ranking *pari passu* with, or junior to, the Offer Shares) until any and all Arrears of Dividends and accrued but unpaid cash dividends have been paid to the holders of the Offer Shares.

Optional Redemption and Purchase

As and if approved by the Board of Directors, SMC may redeem the Offer Shares on such dates as set out in the Offer Supplement, or on the last day of any Dividend Period thereafter (each an “Optional Redemption Date”) in whole or in part, at a redemption price equal to the relevant Offer Price of the Offer Shares plus any accrued and unpaid cash dividends due them on such Dividend Payment Date as well as all Arrears of Dividends outstanding (the “**Redemption Price**”):

If at any time, SMC redeems more than one (1) Subseries, which, under the terms and conditions by which they were offered, may already be subject to early redemption, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the Subseries; provided that in case of partial redemption of a Subseries, such redemption shall apply pro rata among the holders thereof.

SMC may also redeem the Offer Shares, in whole or in part, at any time prior to any Optional Redemption Date if an Accounting Event or Tax Event (each as defined below) has occurred and is continuing, in each case at the Redemption Price.

No Sinking Fund

SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

Accounting Event

An accounting event (“**Accounting Event**”) shall occur if an opinion of any recognized person authorized to perform auditing services in the Republic of the Philippines has stated that there is more than an insubstantial risk that the funds raised through the issuance of the Offer Shares may no longer be recorded as “equity” pursuant to the PFRS, or such other accounting standards which succeed PFRS, as adopted by the Republic of the Philippines, applied by SMC for drawing up its consolidated financial

statements for the relevant financial year and such event cannot be avoided by SMC taking reasonable measures available to it.

Tax Event

A tax event (“**Tax Event**”) shall occur if dividend payments become subject to higher withholding tax or any new tax (including a higher rate of an existing tax) as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such tax cannot be avoided by use of reasonable measures available to SMC.

Purchase of the Offer Shares

Upon listing on the PSE, SMC may purchase the Offer Shares, then tradeable at that time at any time in the open market or by public tender or by private contract at any price through the PSE without any obligation to purchase or redeem the other Offer Shares.

Taxation

Subject to the provisions set forth below, all payments in respect of the Offer Shares are to be made free and clear of any deductions or withholding for or on account of any future taxes or duties imposed by or on behalf of Republic of the Philippines, including but not limited to, stamp, issue, registration, documentary, value added or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, SMC will pay additional amounts so that holders of the Offer Shares will receive the full amount of the relevant payment which otherwise would have been due and payable; provided, however, that SMC shall not be liable for, and the foregoing payment undertaking of SMC shall not apply to:

(a) any withholding tax applicable on dividends earned or on any amounts payable to the holders of the Series 2 Preferred Shares, including any additional tax on such dividends imposed by changes in law, rule, or regulation; (b) any income tax (whether or not subject to withholding); percentage tax (such as stock transaction tax), documentary stamp tax or other applicable taxes on the redemption (or receipt of the redemption price) of the Series 2 Preferred Shares or on the liquidating distributions as may be received by a holder of the Series 2 Preferred Shares; (c) any expanded value added tax which may be payable by any holder of the Series 2 Preferred Shares on any amount to be received from the Issuer under the terms and conditions of the Series 2 Preferred Shares; (d) any withholding tax, including any additional tax imposed by change in law, rules, or regulation, on any dividend payable to any holder of the Series 2 Preferred Shares or any entity which is a U.S. Person under the Foreign Account Tax Compliance Act of the United States (FATCA) or is otherwise a non-resident foreign corporation; and (e) any applicable taxes on any subsequent sale or transfer of the Series 2 Preferred Shares by any holder of the Series 2 Preferred Shares which shall be for the account of the said holder (or the buyer in case such buyer shall have agreed to be responsible for the payment of such taxes).

Documentary stamp tax for the issuance of the Offer Shares and the documentation, if any, shall be for the account of SMC.

The applicable taxes to any subsequent sale of the Offer Shares by any holder of the Offer Shares shall be for the account of the said holder.

Form, Title and Registration of the

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service

Preferred Shares

Corporation as Registrar, and lodged with the Philippine Depository and Trust Corporation (“**PDTC**”) as depository agent on Listing Date through PSE trading participants nominated by the applicants. For this purpose, applicants shall indicate in the proper space provided for in the Application to Purchase (as defined below) the name of a PSE trading participant under whose name their Offer Shares will be registered. After Listing Date, shareholders may request the Registrar, through their nominated PSE trading participant, to (a) open a scripless registry account and have their holdings of the Offer Shares registered under their name (“name-on-registry account”), or (b) issue stock certificates evidencing their investment in the Offer Shares. Any expense that will be incurred in relation to such registration or issuance shall be for the account of the requesting shareholder.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the “**Registry of Shareholders**”) which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The registrar shall send (at the cost of SMC) quarterly a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of the given date thereof. Any request by shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder.

For scripless shares, the maintenance and custody fee payable to the PDTC shall be for the account of the shareholder.

Selling and Transfer Restrictions

After listing, the subsequent transfers of interests in the Offer Shares shall be subject to normal selling restrictions for listed securities as may prevail in the Philippines from time to time.

Governing Law

The Offer Shares will be issued pursuant to the laws of the Republic of the Philippines.

Features of the Preferred Shares

Status

The Series 2 Preferred Shares will constitute the direct and unsecured subordinated obligations of the Company ranking at least *pari passu* in all respects and ratably without preference or priority among themselves.

In the event of the winding-up of the Company, the Series 2 Preferred Shares rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company which rank or are expressed to rank senior to the Series 2 Preferred Shares. The Series 2 Preferred Shares, however, rank in *pari passu* with the other Preferred Shares. There is a substantial risk that an investor in the Series 2 Preferred Shares will not receive any return of the principal amount or any unpaid amounts due under the terms of the Offer unless SMC can satisfy in full all of its other obligations ranking senior to the Series 2 Preferred Shares.

The Company is at liberty from time to time without the consent of the holders of the Series 2 Preferred Shares to create and issue additional preferred shares or securities either (a) ranking at least *pari passu* in all respects with the Series 2 Preferred Shares, or (b) upon such terms as to ranking, distributions, conversion, redemption and otherwise as the Company may determine at the time of the issue.

Dividend Cumulative

Dividends on the Series 2 Preferred Shares will be cumulative. If for any reason the Board of Directors of the Company does not declare a dividend on the Series 2 Preferred Shares for a Dividend Period, the Company will not pay a dividend on the Dividend Payment Date for that Dividend Period. However, on any future Dividend Payment Date on which dividends are declared, holders of the Series 2 Preferred Shares must receive the dividends due them on such Dividend Payment Date as well as any dividends in which the declaration and/or payment have been deferred, in respect of prior Dividend Periods (the “Arrears of Dividends”).

Holders of the Series 2 Preferred Shares shall not be entitled to participate in any other or further dividends beyond the dividends specifically payable on the Series 2 Preferred Shares.

No Voting Rights

Holders of the Series 2 Preferred Shares shall not be entitled to vote at the Company’s stockholders’ meetings, except as otherwise provided by law.

Non-Participating

Holders of the Series 2 Preferred Shares shall not be entitled to participate in any other or future dividends beyond the dividends specifically payable on the Series 2 Preferred Shares.

Non-Convertible

Holders of the Series 2 Preferred Shares shall have no right to convert the Series 2 Preferred Shares to any other preferred shares or common shares of the Company.

No Pre-emptive Rights

Holders of the Series 2 Preferred Shares shall have no pre-emptive rights to subscribe to any shares (including, without limitation, treasury shares) that will be issued or sold by the Company.

Liquidation Rights

In the event of a return of capital in respect of the liquidation, dissolution or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Series 2 Preferred Shares at the time outstanding will be entitled to receive, in Pesos, out of the assets of SMC available for distribution to shareholders, together with the holders of any other of the shares of SMC ranking, as regards repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of the shares of SMC ranking junior to the Series 2 Preferred Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price as of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series 2 Preferred Shares and any other shares of SMC ranking as to any such distribution *pari passu* with the Series 2 Preferred Shares are not paid in full, the holders of the Series 2 Preferred Shares and of such other shares will share proportionately in any such distribution of the assets of SMC in proportion to the

full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Series 2 Preferred Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

Other Terms of the Offer

The other terms of the Offer Shares, including the Offer Period, minimum subscription to the Offer Shares, eligible investors, procedure for application, payment for the Offer Shares, acceptance/rejection of applications, and refunds of application payments shall be set out in the relevant Offer Supplement for each tranche.

Timetable

The timetable of each tranche of the Offer shall be as set out in the relevant Offer Supplement.

Underwriters

The underwriters for each tranche of the Offer as set out in the relevant Offer Supplement.

Depository Agent

Philippine Depository and Trust Corp.

Receiving Agent, Registrar, and Paying Agent

SMC Stock Transfer Service Corporation

Counsel to SMC

Picazo Buyco Tan Fider & Santos

Counsel to the Underwriters

SyCip Salazar Hernandez & Gatmaitan

Selling Agents

The selling agents for each tranche of the Offer as set out in the relevant Offer Supplement.

DESCRIPTION OF THE OFFER SHARES

Set forth below is information relating to the Offer Shares. This description is only a summary and is qualified by reference to Philippine law and the Amended Articles of Incorporation and Amended By-laws of SMC, as may be amended from time to time.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and the by-laws of the corporation.

SMC has an authorized capital stock of ₱30,000,000,000.00, divided into 3,790,000,000 common shares, 300,000,000 Series 1 Preferred Shares, and 1,910,000,000 Series 2 Preferred Shares all with par value of ₱5.00. Below is a table illustrating the issued and outstanding shares of the Company as of June 30, 2020:

Share Class	Issued	Outstanding	Treasury
Common Shares.....	3,288,649,125	2,383,896,588	904,752,537
Preferred Shares – Series 1 ...	279,406,667	-	279,406,667
Preferred Shares – Series 2			
No subseries.....	655,873,286	-	655,873,286
Series “2-C”.....	255,559,400	255,559,400	-
Series “2-D”.....	89,333,400	89,333,400	-
Series “2-E”.....	134,000,100	134,000,100	-
Series “2-F”.....	223,333,500	223,333,500	-
Series “2-G”.....	66,666,600	66,666,600	-
Series “2-H”.....	164,000,000	164,000,000	-
Series “2-I”.....	169,333,400	169,333,400	-
TOTAL	5,326,155,478	3,486,122,988	1,840,032,490

The Issuance of the Offer Shares

On June 14, 2012, the stockholders of the Company approved the amendment of the Articles of Incorporation creating the Series 2 Preferred Shares and delegated to the Board of Directors the authority to determine the terms and conditions of the issuance of the Offer Shares through the approval of the relevant enabling resolutions.

On August 6, 2020, the Board of Directors authorized the sale and offer of up to 533,333,334 Series 2 Preferred Shares, at an offer price of ₱75.00 per share under a shelf registration to be issued within a period of three (3) years, under such terms and conditions as the management of SMC may deem advantageous to it (the “Enabling Resolutions”). The approval by the Board of Directors of the Enabling Resolutions to issue Series 2 Preferred Shares is pursuant to the amended Articles of Incorporation of the Company which allowed the issuance of Series 2 Preferred Shares through enabling resolutions.

The Offer Shares will be issued from Series 2 Preferred Shares currently in the treasury of the Company.

The Company has filed an application for the listing of the Offer Shares on the PSE. Once the Offer Shares are listed on the PSE, SMC may purchase the Offer Shares, then tradeable at that time, at any time in the open market or by public tender or by private contract at any price through the PSE.

Shelf Registration and Features of the Offer Shares

In accordance with the Amended Articles of Incorporation of the Company and as approved by the Board of Directors of the Company through the Enabling Resolutions, the Offer Shares are Philippine Peso- denominated, redeemable, perpetual, cumulative, non-voting, non-participating and non-convertible, each with different features on dividend rate, redemption and adjustment of dividend rate. The number of Offer Shares to be allocated to each subseries shall be determined by the Board of Directors of the Company. SMC can issue the Offer Shares only upon full payment by the subscribers of the subscription price for the said shares which shall be ₱75.00 per share.

The Offer Shares shall be filed under a shelf registration to be issued in tranches within a period of three (3) years. The specific terms of the Offer Shares with respect to each tranche of the Offer shall be determined by the Company taking into account prevailing market conditions at the time of sale and shall be set out in the relevant Offer Supplement. After the Registration Statement of the Company for the Offer Shares becomes effective, the Company will secure a permit to sell from the SEC for each tranche of the Offer.

The Offer Shares have a par value of ₱5.00 per share and with the following general features (for the specific terms of the Offer Shares please refer to the “Terms of the Offer” and the Offer Supplement of the relevant issue tranche):

(a) **Dividends** – The Board of Directors shall have the sole discretion to declare dividends on the Offer Shares, provided that SMC has unrestricted retained earnings, and provided that the rate of dividend or formula for determining the same rate shall be indicated in the relevant enabling resolutions.

Dividends, if and when declared by the Board of Directors, will be payable once for every Dividend Period on such date set by the Board of Directors at the time of declaration of such dividends (each a “Dividend Payment Date”) with reference to the Offer Price, which date shall be any day within the period commencing on (and including) the last day of a Dividend Period and 15 calendar days from the end of the relevant Dividend Period. A “Dividend Period” shall refer to the period commencing on the relevant issue date and having a duration of three (3) months, and thereafter, each of the successive periods of three (3) months commencing on the last day of the immediately preceding Dividend Period up to, but excluding the first day of the immediately succeeding Dividend Period; provided that, the first Dividend Period of the Offer Shares shall be the period commencing on the relevant issue date and ending on the last day of the then current dividend period for the outstanding Series 2 Preferred Shares.

The holders of the Offer Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on the shares as aforementioned, nor shall they be entitled to any other kind of dividend payment whether cash, property, or stock, other than corresponding to the dividend rate determined by the Board of Directors.

The dividend rights on the Offer Shares, please see “Terms of the Offer” on page 23 and on the relevant Offer Supplement.

(b) **Conversion** - The Series “2” Preferred Shares may be convertible into common shares, as determined by the Board of Directors, on terms and conditions (including conversion period, conversion ratio and price) to be determined and fixed by the Board of Directors in the relevant enabling resolutions.

The Offer Shares are not convertible.

(c) **Redemption** – SMC has the option, but not the obligation, to redeem all or part of the Offer Shares at a price and at such time that the Board of Directors shall determine. The Offer Shares, when redeemed, shall not be considered retired and may be re-issued by SMC at a price to be determined by the Board of Directors.

As and if declared by the Board of Directors, SMC may redeem the Offer Shares on the redemption price determined therefor. The terms of any redemption will be set out in the relevant Offer Supplement.

If at any time, SMC is allowed to redeem more than one subseries of the Series “2” Preferred Shares, and provided that such subseries is already redeemable in accordance with the terms and conditions of their issuance, SMC has the option to redeem, without preference or priority, in whole or in part, any or all of the subseries of the Series 2 Preferred Shares

SMC has not established, and currently has no plans to establish, a sinking fund for the redemption of the Offer Shares.

For a more detailed discussion, please see “Terms of the Offer” on page 23.

(d) **Liquidation** – In the event of a return of capital in respect of liquidation, dissolution, bankruptcy or winding up of the affairs of SMC but not on a redemption or purchase by SMC of any of its share capital, the holders of the Offer Shares at the time outstanding will be entitled to receive, in Pesos, out of the assets of SMC available for distribution to shareholders, together with the holders of any other shares of SMC ranking, as regards

repayment of capital, *pari passu* with the Offer Shares and before any distribution of assets is made to holders of any class of shares ranking after the Offer Shares as regards repayment of capital, liquidating distributions in an amount equal to the Redemption Price of (and including) the date of commencement of the winding up of SMC or the date of any such other return of capital, as the case may be. If, upon any return of capital in the winding up of SMC, the amount payable with respect to the Series 1 and Series 2 Preferred Shares, inclusive of the Offer Shares are not paid in full, the holders of such shares will share proportionately in any such distribution of the assets of SMC in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of the Offer Shares will have no right or claim to any of the remaining assets of SMC and will not be entitled to any further participation or return of capital in a winding up.

(e) **Voting Rights** – Holders of the Series 2 Preferred Shares shall not be entitled to vote except in cases expressly provided by law. Thus, the holders of the Offer Shares are not eligible, for example, to vote for or elect the Board of Directors of SMC. Holders of the Series 2 Preferred Shares, including the Offer Shares, however, may vote on matters which the Revised Corporation Code considers significant corporate acts that may be implemented only with the approval of shareholders, including those holding shares denominated as non-voting in the articles of incorporation. The following acts require the approval of the shareholders representing at least two-thirds of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose:

- Amendment of the Amended Articles of Incorporation (including any increase or decrease of capital stock);
- Delegation to the Board of Directors of the power to amend or repeal the Amended By-laws or to adopt a new by-laws;
- Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of SMC;
- Incurring, creating or increasing bonded indebtedness;
- Increase or decrease of capital stock;
- Merger or consolidation of SMC with another corporation or corporations;
- Investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which SMC was organized;
- Ratification of contracts of a director or an officer with SMC;
- Extension or shortening of the corporate term of SMC;
- Declaration and issuance of stock dividends; and
- Dissolution of SMC.

However, for the amendment of the Amended By-laws of SMC, the approval of the shareholders representing at least a majority of the issued and outstanding capital stock of SMC in a meeting duly called for the purpose is required.

(f) **Pre-emptive Rights** – Holders of the Series 2 Preferred Shares including the Offer Shares, shall have no pre-emptive right to any issue or disposition of any share of any class of SMC.

Other Rights and Incidents Relating to the Preferred Shares

The other rights and incidents relating to the Offer Shares, which may also apply to other classes of shares of SMC, are as follows:

Derivative Suit

Philippine law recognizes the right of a shareholder to institute, under certain circumstances, proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights, as for example, where the directors themselves are the malefactors.

Appraisal Rights

The Revised Corporation Code grants a shareholder a right of appraisal in certain circumstances where he has dissented and voted against a proposed corporate action, including:

- an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached

- to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class or shortening the term of corporate existence;
- the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all of the assets of the corporation;
- the extension of corporate term;
- the investment of corporate funds in another corporation or business for any purpose other than the primary purpose for which the corporation was organized; and
- a merger or consolidation.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default of agreement, is determined by three disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. The SEC will, in the event of a dispute, determine any question about whether a dissenting shareholder is entitled to this right of appraisal. The dissenting shareholder will be paid if the corporate action in question is implemented and the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Shareholders' Meetings

At the annual meeting or at any special meeting of shareholders of the Company, the latter may be asked to approve actions requiring shareholder approval under Philippine law.

Quorum

The Revised Corporation Code provides that, except in instances where the assent of shareholders representing two-thirds of the outstanding capital stock is required to approve a corporate act (usually involving the significant corporate acts where even non-voting shares may vote, as identified above) or where the by-laws provide otherwise, a quorum for a meeting of shareholders will exist if shareholders representing a majority of the capital stock are present in person or by proxy.

Voting

Holders of the Offer Shares shall not be entitled to vote except in cases expressly provided by law. At any such shareholders' meeting where holders of the Offer Shares are allowed to vote, each holder of the Offer Shares shall be entitled to vote in person, or by proxy, all shares held by him which have voting power, upon any matter duly raised in such meeting.

The By-laws of SMC provide that proxies shall be in writing and signed and in accordance with the existing laws, rules and regulations of the SEC. Duly accomplished proxies must be submitted to the office of the Corporate Secretary not later than ten trading days prior to the date of the shareholders' meeting.

Fixing Record Dates

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their votes voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. The Board of Directors may, by resolution, direct the stock transfer books of the Company be closed for a period not exceeding 20 days preceding the date of any meeting of shareholders. The record date shall in no case be more than 60 days or less than 35 days preceding such meeting of shareholders.

Accounting and Auditing Requirements/Rights of Inspection

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. Corporations whose shares are listed on the PSE are also required to file quarterly and annual reports with the SEC and the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board of Directors is required to present to shareholders at every annual meeting a financial report of the operations of the corporation for the preceding year. This report is required to include audited financial statements.

Changes in Control

There is no provision in the Amended Articles of Incorporation and Amended By-laws of SMC which would delay, deter or prevent a change in control of SMC. There are no existing arrangements to which SMC is a party or which are otherwise known to SMC that may result in a change in control of SMC.

Differences in the features of the Common, Series 1, and 2 Preferred Shares

	COMMON SHARES	SERIES “1” PREFERRED SHARES	SERIES “2” PREFERRED SHARES
Entitlement to Dividends	<u>Declaration of Dividends at the Option of the Board</u>	<u>Declaration of Dividends at the Option of the Board</u>	<u>Declaration of Dividends at the Option of the Board</u>
	The holders of common shares may be entitled to receive dividends upon declaration made at the sole option of the Board of Directors.	The holders of Series “1” Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors.	The holders of Series “2” Preferred Shares shall be entitled to receive cash dividends upon declaration made at the sole option of the Board of Directors.
	<u>No Fixed Dividend Rate</u>	<u>Fixed Dividend Rate</u>	<u>Fixed Dividend Rate</u>
	There is no fixed dividend rate for common shares. Historically, SMC declares a cash dividend of ₱0.35 on a quarterly basis.	The annual dividends for Series “1” Preferred Shares shall be based on the 5-year PDST-F rate plus a spread which the Board of Directors has authorized Management to determine (“Dividend Rate”) calculated in respect of each share by reference to the issue price thereof (the “Issue Price”). On this basis and pursuant to such authority granted to Management, the Dividend Rate has been determined to be eight percent (8%) per annum.	The dividend rate shall be determined by the Board of Directors prior to the Issue Date.
		<u>Dividend Rate Adjustment</u>	<u>Dividend Rate Adjustment</u>
		Unless the Series “1” Preferred Shares are redeemed at the end of the fifth year of the issue date thereof (the “Issue Date”), the Dividend Rate shall be adjusted to the higher of: (i) the Dividend Rate; and (ii) the prevailing 10-year PDST- F Rate (or such successor benchmark rate) as displayed under the heading “Bid Yield” as published on the PDEX page (or successor page) of Bloomberg (or successor	Dividend rate adjustment, if any, shall be determined by the Board of Directors prior to the Issue Date

electronic service provider) at approximately 11:30 a.m., Manila time on the date corresponding to the end of the fifth year from the Issue Date (or if not available, the PDST-F Rate on the banking day prior to such date, or if still not available, the nearest preceding date on which the PDST-F Rate is available, but if such nearest preceding date is more than five days prior to the date corresponding to the end of the fifth year from the Issue Date, the Board of Directors at its reasonable discretion shall determine the appropriate substitute rate), plus a spread of up to 300 basis points, in either case calculated in respect of each share by reference to the Issue Price.

Subordinate to Series “1” and Series “2” Preferred Shares

No dividend shall be declared and paid to holders of common shares unless cash dividends shall have been declared and paid to all holders of the Series “1” and Series “2” Preferred Shares.

Non-cumulative

The dividends on the common shares are non-cumulative.

When Payable

The dividends declared shall be payable quarterly, beginning on the third month after the Issue Date of the Series “1” Preferred Shares and every three months thereafter (each, a “Dividend Payment Date”).

Cumulative

The dividends on the Series “1” Preferred Shares are cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)

Non-Participating

The holders of the Series “1” Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series “1” Preferred Shares.

When Payable

It is envisioned that the dividends declared shall be payable quarterly, beginning on the third month after the Issue Date of the Series “2” Preferred Shares and every three months thereafter (each, a “Dividend Payment Date”).

Cumulative

It is envisioned that the dividends on the Series “2” Preferred Shares shall be cumulative. (This means that if the profits in any year are not enough to pay the preferred dividends, the deficiency is made up from the profits of the subsequent year.)

Non-Participating

The holders of the Series “2” Preferred Shares shall not be entitled to any participation or share in the retained earnings remaining after dividend payment shall have been made on said Series “2” Preferred Shares. The holders of the Series “2” Preferred Shares shall not be entitled to participate or share in any other distribution or payment of

dividends other than corresponding to the dividend rate prescribed in the Enabling Resolutions.

Redeemability	<u>Non-redeemable</u>	<u>Redeemable</u>	<u>Redeemable</u>
	Common Shares are not redeemable.	<p>The Series “1” Preferred Shares are redeemable in whole or in part, at the sole option of the Company, at the end of three years from the Issue Date or on any Dividend Payment Date thereafter, at the price equal to the Issue Price plus any accumulated unpaid cash dividends.</p> <p>The Series “1” Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors.</p> <p>Series “1” Preferred Shares are also perpetual or have no stated maturity.</p>	<p>It is envisioned that the Series “2” Preferred Shares shall be redeemable in whole or in part, at the sole option of the Company.</p> <p>The Series “2” Preferred Shares, when redeemed, shall not be considered retired and may be re-issued by the Company at a price to be determined by the Board of Directors.</p> <p>Series “2” Preferred Shares are also perpetual or have no stated maturity.</p>
Rights Upon Liquidation/ Dissolution/ Bankruptcy/ Winding Up	<u>Subordinate to Series “1” and Series “2” Preferred Shares</u>	<u>Preference over Common Shares upon Liquidation</u>	<u>Preference over Common Shares upon Liquidation</u>
	The right of the holders of Common Shares to receive any asset of the Company in case of liquidation, dissolution, bankruptcy or winding up of the Company is subordinate to the holders of the Series “1” and Series “2” Preferred Shares.	In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series “1” Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series “1” and Series “2” Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.	In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of the Company, the holders of the Series “1” Preferred Shares and the Series “2” Preferred Shares shall enjoy preference in the payment, in full, or if the remaining assets of the Company are insufficient, on a pro-rata basis as among all holders of outstanding Series “1” and Series “2” Preferred Shares, of the Issue Price of their shares plus any previously declared and unpaid dividends, before any asset of the Company is paid or distributed to the holders of Common Shares.

Voting Rights	<u>With Voting Rights</u>	<u>No Voting Rights</u>	<u>No Voting Rights</u>
	<p>Common stockholders have the right to vote on all matters requiring stockholders' approval. Under the Corporation Code, the following corporate actions require the approval of the stockholders of a corporation:</p> <p>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; Dissolution; Removal of directors; Ratification of the contract of a self-dealing director or officer/ratification of act of a disloyal director who obtains profits to the prejudice of the corporation; Extension or shortening of the corporate term; Declaration of stock dividends; Approval of management contracts; and Delegation of the power to amend or repeal by-laws or adopt new by-laws to the board of directors or trustees.</p>	<p>The holders of the Series "1" Preferred Shares shall not be entitled to vote except in the following instances:</p> <p>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.</p>	<p>The holders of the Series "2" Preferred Shares shall not be entitled to vote except in the following instances:</p> <p>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.</p>
Pre-Emptive Right	<u>No Pre-Emptive Right</u>	<u>No Pre-Emptive Right</u>	<u>No Pre-Emptive Right</u>
	<p>There shall be no pre-emptive right to any issuance of common shares.</p>	<p>The holders of the Series "1" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.</p>	<p>The holders of the Series "2" Preferred Shares shall have no pre-emptive right to any issue or disposition of any share of any class of the Company.</p>

PSE Listing**Listed with the PSE**

The common shares of the Company are listed with and traded on the PSE.

Listed with the PSE

The Series “1” Preferred Shares are listed with the PSE.

Listed with the PSE

The Series “2” Preferred Shares are listed with the Philippine Stock Exchange (PSE). The additional issuance of Series “2” Preferred Shares shall be listed with the PSE upon issuance.

RISK FACTORS

General Risk Warning

An investment in the Offer Shares 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 Offer Shares. 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, results of operations and cause the market price of the Offer Shares to decline. All or part of an investment in the Offer Shares 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 79, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” beginning on page 200, and “Management — Corporate Governance” on page 193 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 Offer Shares 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 Offer Shares. 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 continuing impacts of the COVID-19 pandemic are highly unpredictable, volatile, and uncertain, and have had, and will continue to have, certain negative impacts on business operations, demand for products and services, costs of doing business, availability of labor, access to inventory, supply chain operations, the Company’s financial performance, and the ability to predict future 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 impacted and may continue to impact the Company's businesses. While the Company has taken numerous steps to mitigate the impact of the pandemic on its results of operations, there can be no assurance that these efforts will be successful. As of the date of this Prospectus, Metro Manila is under General Community Quarantine ("GCQ"), while other areas continue to be placed under other levels of community quarantine and there is no assurance that areas that are currently under GCQ or Modified GCQ ("GCQ") will not be put under more stringent community quarantine in the future.

Due to numerous uncertainties and factors beyond its control, SMC is unable to predict the impact that COVID-19 will have going forward on 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 will be a "second wave" 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 duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures;
- restrictions on operations up to and including complete or partial closure of offices, plants, facilities and distribution centers;
- 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 operate its businesses;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- the impact of the pandemic and related economic uncertainty on consumer confidence, economic well-being, spending, and shopping behaviors, both during and after the crisis;
- impacts—financial, operational or otherwise—on the Company's supply chain, including manufacturers or suppliers of products and logistics or transportation providers, and on the Company's service providers or 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;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Company's businesses.

The above factors and uncertainties, or others of which the Company is not currently aware, may result in adverse impacts to the Company's businesses, results of operations, cash flows, and financial condition.

In particular, the COVID-19 pandemic has, and is expected to continue to have, an adverse effect on the Company's businesses and results of operations. Given the imposition of the ECQ and other community quarantine measures for the duration of the second quarter of 2020, the second quarter 2020 performance reflects the full impact of the ECQ lockdown, which commenced on March 16, 2020 and lasted the whole month of April and the first half of May, thereby continuing and amplifying trends observed during the first quarter of 2020. See "*Managements Discussion and Analysis of Results of Operations and Financial Condition*" and "*Recent Developments—The COVID-19 Pandemic*." In addition, while it would be premature to predict the overall impact of the pandemic, the Company expects continuing adverse impacts beyond the third quarter of 2020.

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 both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted. 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 the Prospectus.

Digital commerce platforms

The importance of online selling platforms increased significantly during the COVID-19 pandemic. Heightened demand for online groceries has been 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://order.sanmiguelfoods.com>, 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 payments as a sales channel. These digital ordering and payment platforms could be damaged or interrupted by power loss, technological failures, user errors, other forms of sabotage or other force majeure. The execution of the SMFB's growth strategy moving forward will depend, in part, on such initiatives utilizing technology solutions, gathering and leveraging data to enhance operations, and improving the customer experience on multiple platforms. Additionally, implementing, maintaining and upgrading technology 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 June 30, 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 Offer Shares 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 holders of Offer Shares, 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 June 30, 2020, the noncurrent liabilities of SMC included finance lease liabilities (net of current portion) of ₱104,686 million and long-term debt (net of current maturities and debt issue costs) of ₱732,822 million. As of June 30, 2020, the current liabilities of SMC included accounts payable and accrued expenses of ₱142,176 million and finance lease liabilities (current portion) of ₱25,492 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 (“DOTr”), 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 Toll Regulatory Board of the Philippines (“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.

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, the amount required to be grossed up by the Company will increase. To date, the House of Representatives is still awaiting the Senate’s action on the PIFITA Bill.

On September 13, 2019, the House of Representatives of the Philippines also approved on third and final reading House Bill No. 4157, or the Corporate Recovery and Tax Incentives for Enterprises Act (“**CREATE**”) (formerly known as the Corporate Income Tax and Incentives Rationalization Act (“**CITIRA**”). The CREATE bill provides for the application of lower corporate income taxes. However, the CREATE bill also provides for the reduction, suspension or cancellation of fiscal incentives for corporations under certain circumstances. If the bill is passed into law, the fiscal incentives currently enjoyed by the Company and/or its subsidiaries may be adversely affected. To date, the House of Representatives is still awaiting the Senate’s action on the PIFITA and CREATE bills.

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 such licenses, permits and other authorizations 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 supply 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.

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 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 2019, approximately 76.2% 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 June 30, 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 June 30, 2020, approximately 14% 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 and Note 8 to the Company's interim condensed consolidated financial information included in this Prospectus.

Certain financial information of the Company contained in this Prospectus has not been audited

The Company's interim condensed consolidated financial statements as of June 30, 2020, and for the six-month periods ended June 30, 2019 and 2020 included in this Prospectus have not been audited in accordance with Philippine Standards on Auditing.

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 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 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 SMB continuously seeks to enhance the efficiency and manufacturing capabilities of its production facilities, SMB may, from time to time, experience production difficulties that may cause shortages and delays in deliveries, as is common in the manufacturing industry. If SMB 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, SMB 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. As of the same period, none of the SMFB's farms have been affected by the outbreak. In addition, there were sporadic cases of porcine epidemic diarrhoea (PED) during the third quarter of 2016 and first quarter in 2017 when two farms were affected, the Newcastle disease outbreak in the first quarter of 2016 and the Avian Influenza (H5N6) during the third quarter of 2017. In addition, in September 2019, the Philippine Department of Agriculture confirmed the outbreak of African swine fever across several regions in the Philippines and restrictions have been imposed by some local government units on movements of hogs across central Luzon in the affected provinces of Rizal, Bulacan and Pampanga. As of the same period, none of SMFB's farms have been affected by the outbreak. These incidents negatively affected revenue growth of SMFB's Protein segment for those periods.

Currently, there is a looming threat of a new strain of swine flu identified in China, which has the potential to become a pandemic. This new flu strain emerged recently and is carried by pigs, but can also infect humans, according to scientists. The 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 (WHO) 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 SMC'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 including 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 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, 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.

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

The financial results of Petron 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 generally accounts for a large portion of Petron's total cost of goods sold. For example, for the year ended December 31, 2019 and for the six months ended June 30, 2020, crude oil accounted for approximately 36% and 45% of Petron's total cost of goods sold, 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 and other factors over which Petron has no control. Historically, international crude oil prices have been volatile, and may continue to be volatile in the future. In addition, the Philippine government has historically intervened to restrict increases in the prices of petroleum products in the Philippines from time to time. For example, on October 2, 2009, then President Gloria Macapagal Arroyo declared a state of national calamity in view of the devastation caused by typhoons "Ondoy" and "Pepeng." President Arroyo subsequently issued Executive Order No. 839, Series of 2009 dated October 23, 2009 mandating that prices of petroleum products in Luzon be kept at October 15, 2009 levels effective October 23, 2009, which adversely affected Petron's profitability during the period until the price freeze was lifted on November 16, 2009. Any inability or limitation on the ability 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 was 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.

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

Petron purchases a significant portion of the crude oil for its Philippine operations from Saudi Arabian Oil Company (“**Saudi Aramco**”), the state-owned national oil company of Saudi Arabia. For example, in 2018, Petron purchased approximately 46% of the total crude oil supply requirements of the Limay Refinery from Saudi Aramco. Petron has a term contract with Saudi Aramco entered into in 2008 to purchase various Saudi Aramco crudes. Pricing is determined through a formula that is linked to international industry benchmarks. 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.

In addition, Petron also purchases a significant portion of the crude oil for its Philippine operations from Kuwait Petroleum Corporation (“**KPC**”). Petron has a contract with KPC to purchase various Kuwait crude. Pricing is determined through a formula that is linked to international industry benchmarks. The contract is renewable subject to the mutual agreement of the parties.

The supply of crude oil by Saudi Aramco and KPC is subject to a variety of factors beyond Petron’s control, including the stability of and political developments in Saudi Arabia, Kuwait, and the rest of the Middle East, government regulations with respect to the oil and energy industry in those regions, weather conditions, and overall economic conditions in the Middle East. In addition, the company purchases a significant portion of the crude oil supply requirements for its refinery in Port Dickson, Malaysia (the “**Port Dickson Refinery**”) from ExxonMobil Exploration and Production Malaysia, Inc. (“**EMEPMI**”) pursuant to a long-term supply contract. A material disruption in the operations of Saudi Aramco, of KPC or of EMEPMI, or a decision by any of Saudi Aramco, KPC or EMEPMI to terminate their respective contracts with the company, could negatively impact its crude oil supply. If the supply of crude oil from Saudi Aramco, KPC or EMEPMI were disrupted, Petron would be required to meet any consequent supply shortfall through other suppliers or spot market purchases.

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

Intense competition and cyclicity in global and regional refining capacities

Petron faces intense competition in the sale of petroleum and other related products in the markets in which it operates. Petron competes with a number of multinational, national, regional, and local competitors in the refined petroleum products business for market share of petroleum products sales. Because of the commodity nature of oil products, 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. The Malaysian operations of Petron are subject to government price controls, as a result of which competition in those market sectors that are subject to government quotas is based primarily on the allocation of the applicable quotas by the Malaysian government.

The competitiveness of Petron 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 the company is unable to compete effectively with its competitors, 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 its 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 the business, financial condition and results of operations of Petron.

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, in November 2008, the main electrical facilities in the utilities area of the Limay Refinery were damaged by a fire, which necessitated repairs and resulted in higher maintenance and repair costs for 2009. In April 2019, while the Limay Refinery was undergoing a major maintenance, an earthquake occurred, which extended the planned shutdown. Operations resumed on August 8, 2019.

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. 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 the Company.

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 prices are not borne fully by Malaysian consumers. Effective December 1, 2014, the Malaysian government implemented a managed float system under which the Malaysian government fixes the government-mandated retail prices of RON 95 petroleum and diesel on a monthly basis based on the Mean of Platts Singapore ("MOPS") for the previous month. If government-mandated prices are lower than the total built-up cost of Petron, it receives subsidies from the Malaysian government. Conversely, if government-mandated prices are higher than the Petron's total built-up cost, it pays duties to the Malaysian government. A substantial portion of the revenue of Petron has been derived from sales of refined petroleum products in Malaysia that are subject to price controls.

In addition, the sale of 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 total built-up costs of Petron, the company endeavours to limit diesel sales to volumes covered by the quotas. There can be no assurance that the Malaysian government will increase quotas, 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 its quotas or those of any of its selected transportation sector customers, the financial condition and results of operations of Petron may be materially and adversely affected.

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

The operations of the fuel and oil business are 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 the business of Petron. 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 the licenses or operation of its facilities.

Petron has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, it 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. For example, Euro IV-standard fuels became mandatory in the Philippines in 2016. In Malaysia, the government is considering implementation of Euro 4M

and Euro 5M fuels in phases: Euro 4M for RON 97 by September 1, 2015, Euro 4M for RON 95 by October 1, 2018, Euro 5M (sulfur specification only) for diesel by September 1, 2020, and Euro 5M for RON 95 and RON 97 by January 1, 2025. Petron has made and is making capital expenditures to ensure that its refineries comply with Euro IV standards, Euro 4M and Euro 5M standards, as applicable, as these standards are mandated by the Philippine and Malaysian governments, respectively. 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 the financial condition and results of operations of Petron. 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 the Petron being subject to fines and penalties or having to incur additional capital expenditures or operating expenses to upgrade or relocate its facilities. 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 the 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 the financial condition and results of operations of Petron.

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 the customers to switch to alternative fuels such as natural gas, ethanol and palm oil methyl ester fuel blends. If alternative fuels become more affordable and available than petroleum products, customers may shift from petroleum to these alternative fuels not offered by Petron, resulting in lower sales volumes. In recent years, the Philippine and Malaysian governments have enacted regulations mandating the inclusion of a specified percentage of alternative fuels in gasoline and diesel fuels sold or distributed, and these types of requirements may be increased in the future. 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 all require substantial capital expenditures. Petron's ability to maintain and increase its sales, net income, and cash flows may be affected by the timely and successful completion of its planned capital expenditure projects. Petron's current business strategies involve, among others, (i) continued investment in the Limay Refinery to support the increased utilization from RMP-2 and improve refinery operations; (ii) continued expansion of its retail service station, LPG, and lubes network in the Philippines; (iii) expansion and upgrade of its logistics capacity; and (iv) expansion of Malaysia operations with new service station additions and facilities improvement in Port Dickson Refinery to enable it to produce Euro 5M-standard fuels. 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 following the completion of the RMP-2, the Limay Refinery will run at the expected capacity or achieve the expected production profile, or that there will be sufficient demand and

logistical support for the Petron's increased production. Any of the foregoing factors could adversely affect the Petron's business, financial condition, and results of operations.

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

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 National Power Corporation ("NPC") owned and controlled power generation assets, the establishment of the Wholesale Electricity Spot Market ("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. Competitors may 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 Department of Energy ("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 Retail Electricity Supplier ("RES") licenses. In compliance with the DC, 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”; and
- 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 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.

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, 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 requirement 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 power supply agreements (“**PSAs**”) covering an aggregate capacity of 1,290 MW starting 2020 and entered into by SMC Global Power, through its subsidiaries, with Manila Electric Company (“**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 is currently exploring alternative sources of fuel, such as floating storage regassification units containing liquefied natural gas (“**LNG**”) or a full-size LNG terminal, together with the other stakeholders of Malampaya. Alternatively, the Ilijan Power Plant may also be reconfigured to be a diesel or an LNG-type facility in the future. 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 may include events that 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 to reconfigure its plants,

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

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, the 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.

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 19.0% market share of the National Grid, 25.0% of the Luzon Grid and 8.0% of the Mindanao Grid as of June 30, 2020. The EPIRA limits the market share of a participant to 30.0% per grid and 25.0% 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.

Development of greenfield power projects and expansion projects

The development of greenfield power projects and expansion projects of existing power plants involves 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 operations, and 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.

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.

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.

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.

In particular, sales to Meralco under the relevant PSA in relation to the Ilijan Power Plant, Sual Power Plant, and Masinloc Power Plant comprised approximately 43.0% of SMC Global Power's total revenue for the six months ended June 30, 2020. The Ilijan Power Plant and Sual Power Plant are currently providing Meralco with power pursuant to the recent CSPs conducted by Meralco, following the expiration in December 2019 of previous PSAs with Meralco. In September 2019, Meralco conducted a CSP for its power supply, in accordance with the requirements under DC No. 2018-02-0003 (the "**DOE CSP Policy**"). The Ilijan Power Plant was awarded two offtake contracts to supply an aggregate of 960 MW. The first contract is for the supply of 670 MW for baseload power requirements for a period of ten (10) years from December 26, 2019 until December 25, 2029, and the second contract is for the supply of 290 MW mid-merit power requirements for a period of five years from December 26, 2019 until December 25, 2024. In addition, the Sual Power Plant was also awarded a contract to supply 330 MW for baseload power requirements for a period of ten (10) years from December 26, 2019 until December 25, 2029. The three contracts have been executed between Meralco and the relevant IPPAs, subject to ERC approval.

The PSA between Masinloc Power Partners Co. Ltd. ("**MPPCL**") and Meralco, originally expiring in December 2019 was agreed to be extended up to 2022, subject to ERC approval. However, in consideration of the Supreme Court decision on CSP which clarified the regulatory policies on PSAs, MPPCL has opted instead to negotiate with Meralco for an extension of the PSA for one year, or until December 2020, as provided for in the contract. The PSAs of Meralco with each of the Masinloc Power Plant and Sual Power Plant will expire in 2024, and can be extended for up to 48 billing periods, upon mutual agreement of the parties.

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 SMC Global Power's greenfield power plants, there is no assurance that SMC Global Power 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 favourable 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.

Operating capacities of its power portfolio

The administration of the output of the power generation plants involves significant risks, including:

- 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. 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.

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 SMC Global Power's power plants or that the preventative measures 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 the 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 the Power Sector Assets and Liabilities Management Corporation ("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 the Company's business, financial condition, and 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 San Miguel Energy Corporation (“**SMEC**”), Strategic Power Devt. Corp. (“**SPDC**”) and South Premiere Power Corp. (“**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 its financial condition and results of operations.

For the power plants of SMC Global Power, SMC Consolidated Power Corporation (“**SCPC**”), San Miguel Consolidated Power Corporation (“**SMCPC**”) and MPPCL have secured necessary insurance for their respective power plants, which 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 existing business interruption insurance policies of these entities, however, do not cover any declines in production or adverse publicity that SCPC, SMCPC, or MPPCL may suffer, neither do these policies cover any significant resource that SCPC, SMCPC, or MPPCL may invest to address such losses. Any unexpected losses caused by such events against which these subsidiaries are not fully insured 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 the then National Water Resources Council, pursuant to which NPC has authority to extract water from the Angat River for power generation purposes.

The levels of hydroelectric production can 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.

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; (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 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.

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 National Grid Corporation of the Philippines (“**NGCP**”) and other relevant Government institutions to address the transmission infrastructure requirements of 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 June 30, 2020, certain subsidiaries of SMC Global Power, namely, SCPC for the Limay Greenfield Power Plant, SMCPC for the Davao Greenfield Power Plant and MPPCL for the Masinloc Power Plant, Masinloc BESS

and SMCGP Philippines Energy Storage Co. Ltd for the Kabankalan BESS were registered with the Board of Investments (“**BOI**”) as new operators with pioneer status and non-pioneer status for its greenfield projects. BOI-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 30.0% of net taxable income as of December 31, 2019. As a result, 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 accounts for majority of the consolidated sales volume of SMC Global Power for the year ended December 31, 2019. 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.

There is no assurance that the ERC will permit the distribution utility customers of the subsidiaries of SMC Global Power to pass on or increase their rates or that subsequent reviews by the ERC will not result in the cancellation of any such increases or require such distribution utility customers to refund payments previously received from their customers. In addition, there is no assurance that any rate increases approved by the ERC will not be overturned by Philippine courts on appeal. For example, SMC Global Power and other generation companies are parties to a petition filed in the Supreme Court by special interest groups against Meralco in relation to the increase in generation rates for the billing months of November and December 2013. In particular, the ERC issued an order dated March 3, 2014, which voided the WESM prices for the November and December 2013 billing months, and imposed prices to be recalculated by the Philippine Electricity Market Corporation (“**PEMC**”). However, the Court of Appeals, in its decision dated November 7, 2017, declared the ERC order dated March 3, 2014 null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013. Upon finality, a claim for refund may be made with the PEMC.

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**”); and
- 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 DC No. 2015-06-0008 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. See “*The Company — Legal Proceedings — Petition to Nullify ERC Resolution No. 1, Series of 2016.*” 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. SMC Global Power intends to participate in the rebid for the supply of major greenfield power supply requirements of Meralco,

estimated to be 3,695 MW, and for any other brownfield or additional greenfield power supply requirements in the near future.

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.

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.

Currently, the ERC has implemented a reduced primary bid cap of ₱32,000 per MWh. 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.

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.

South Luzon Tollway Corporation ("**SLTC**") has filed three 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 and received by the TRB on September 30, 2014. However, a Motion for Leave to Amend the Petition was filed by SLTC on November 19, 2014 for the purpose of clarifying and further supporting the basis for the computation of the adjusted toll rate. To date, SLTC has not yet submitted a revised petition for periodic toll rate adjustment to the TRB.

The third and latest petition for toll rate adjustment was filed with and received by the TRB on September 28, 2018.

SLTC continues to engage in comprehensive discussions and 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 the 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 expecting an economic downturn following the Taal volcano eruption in January and the COVID-19 pandemic and resultant lockdown. The country suffered its deepest contraction on record according to the Philippine Statistics Authority, posting a reduction in gross domestic product of 16.5% in the second quarter of 2020. The country's economic team expects the Philippine economy contracting by 5.5% for the full year 2020, deeper than the 2% to 3.4% contraction projected earlier. As of end of June 2020, domestic inflation averaged 2.5%, within the government's 2% to 4% target. For the full year 2020, the BSP projects inflation to stay within range at 2.3%. This benign inflation outlook has provided the BSP an accommodative stance to manage long-term uncertainties during the pandemic. For the fourth time in 2020, BSP cut the rate on its overnight reverse repurchase facility by 50 basis points to 2.25% from 2.75% to improve market confidence and help reduce the downside risks to economic growth and activity. In addition, the Monetary Board cut the rate on the overnight deposit facility and the overnight lending facility to 1.75% and 2.75%, respectively. A global recession is also predicted for the year 2020 as the economic effects of the COVID-19 pandemic are felt in other countries, which also adversely affect the Philippine economy. Economic statistics released by the United States of America, United Kingdom, and Japan all posted a decline in GDP of 32.9%, 20.4%, and 27.8%, respectively.

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 energy 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 5.5% of Philippine GDP in 2019. 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, 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.

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, the 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 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 OFFER SHARES

The Offer Shares may not be a suitable investment for all investors

Each potential investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Offer Shares, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for principal or dividend payments is different from the currency of the potential investor;
- understand thoroughly the terms of the Offer Shares and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

Redemption at the option of the Issuer

The Offer Shares are perpetual and have no fixed final maturity date. Holders have no right to require the Company to redeem the Offer Shares at any time and they can only be disposed of by sale in the secondary market. Holders who wish to sell their Offer Shares may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Offer Shares. Therefore, holders of the Offer Shares should be aware that they may be required to bear the financial risks of an investment in the Offer Shares for an indefinite period of time.

The sale of the Offer Shares or any rights thereto prior to the listing of the Offer Shares cannot be made through the PSE. The Company has filed an application for the listing of the Offer Shares on the PSE.

Prior to the listing of the Offer Shares to the PSE, the sale of subscription rights to the Offer Shares may be treated as sale of shares and subject to documentary stamp tax, capital gains tax (on any gain derived from the sale thereof) or donor's tax (in case of donation or sale of the subscription rights to the Offer Shares for a price below the fair market value of the subscription rights).

Volatility of market price of the Offer Shares

The market price of the Offer Shares could be affected by various factors, including:

- general market, political and economic conditions;
- changes in earnings estimates and recommendations by financial analysts;
- changes in market valuations of listed stocks, in general, and stocks of other conglomerates;
- changes to government policy, legislation or regulations, and
- general operational and business risks.

In addition, many of the risks described within this section could materially and adversely affect the market price of the Offer Shares.

Additional Taxes

The sale, exchange or disposition of the Offer Shares after the Offer Period, if made outside the facilities of the PSE is subject to capital gains tax and documentary stamp tax, and if made through the facilities of the PSE (except for a dealer in securities) is subject to stock transaction tax. Changes in laws, rules and regulations may result in additional taxes on the acquisition, disposition, or transfer of the Offer Shares. For a discussion on the taxes currently imposed by the BIR, please refer to the section on “*Taxation*” on page 262 of the Prospectus.

Deferral of dividend payment

Dividends on the Offer Shares may not be paid or may be paid in less than full dividends, under the terms and conditions governing the Offer Shares. Holders of the Offer Shares will not receive dividends on a Dividend Payment Date or for any period during which the Company does not have retained earnings out of which to pay dividends.

Subordination to other indebtedness of the Company

The obligations of SMC under the Offer Shares are unsecured and are subordinated obligations to all of the indebtedness of the Company. The rights and claims of holders of the Offer Shares will (subject to the extent permitted by law) rank senior to the holders of the common shares of the Company and *pari passu* with the other preferred shares.

In the event of the winding-up of the Company, the Offer Shares rank junior in right of payment to all indebtedness of the Company and junior in right of payment to securities of, or claims against, the Company, which rank or are expressed to rank senior to the Offer Shares. The Offer Shares, however, rank in *pari passu* with the Series 1 Preferred Shares and the other subseries of the Series 2 Preferred Shares. There is a substantial risk that an investor in the Offer Shares will not receive any return of the principal amount or any unpaid amounts due under the terms of the Offer unless SMC can satisfy in full all of its other obligations ranking senior to the Offer Shares.

There are no terms in the Offer Shares that limit the ability of SMC to incur additional indebtedness, including indebtedness that ranks senior to or *pari passu* with the Offer Shares.

Insufficient distributions upon liquidation

Upon any voluntary or involuntary dissolution, liquidation or winding up of SMC, holders of Offer Shares will be entitled only to the available assets of the Company remaining after the indebtedness of SMC is satisfied. If any such assets are insufficient to pay the amounts due on the Offer Shares, then the holders of the Offer Shares shall share ratably in any such distribution of assets in proportion to the full distributions to which they would otherwise be respectively entitled.

Subordination of payments to the Holders of the Offer Shares

SMC has and will continue to have a certain amount of outstanding indebtedness. The current terms of the financing agreements of SMC contain provisions that could limit the ability of the Company to make payments to the holders of the Offer Shares. Also, SMC may in the future, directly or indirectly through its subsidiaries, enter into other financing agreements which may restrict or prohibit the ability of the Company to make payments on the Offer Shares. There can be no assurance that existing or future financing arrangements will not adversely affect the ability of SMC to make payments on the Offer Shares.

Liquidity of the securities market

The Philippine securities markets are substantially less liquid and more volatile than major securities markets in other jurisdictions, and are not as highly regulated or supervised as some of these other markets. The Company cannot guarantee that the market for the Offer Shares will always be active or liquid upon their listing on the PSE.

In addition, the Company and the Underwriters are not obligated to create a trading market for the Offer Shares and any such market making will be subject to the limits imposed by applicable law, and may be interrupted or discontinued at any time without notice. Accordingly, the Company cannot predict whether an active or liquid trading market for the Offer Shares will develop or, if such a market develops, if it can be sustained. Consequently, a shareholder may be required to hold his Offer Shares for an indefinite period of time or sell them for an amount less than the Offer Price.

Effect of non-payment of dividends

If dividends on the Offer Shares are not paid in full, or at all, the Offer Shares may trade at a lower price than they might otherwise have traded if dividends had been paid. The sale of Offer Shares during such a period by a holder of Offer Shares may result in such holder receiving lower returns on the investment than a holder who continues to hold the Offer Shares until dividend payments resume. In addition, because of the dividend limitations, the market price for the Offer Shares may be more volatile than that of other securities that do not have these limitations.

Inability to reinvest at a similar return on investment upon redemption

On the Optional Redemption Date or at any time redemption occurs, SMC may redeem the Offer Shares at the Redemption Price, as described in “*Description of the Offer Shares*”. At the time of redemption, interest rates may be lower than at the time of the issuance of the Offer Shares and, consequently, the holders of the Offer Shares may not be able to reinvest the proceeds at a comparable interest rate or purchase securities otherwise comparable to the Offer Shares.

Limited voting rights

Holders of Offer Shares will not be entitled to elect the Board of Directors of the Company. Except as specifically set forth in the Amended Articles of Incorporation of the Company and as provided by Philippine law, holders of Offer Shares will have no voting rights (see “*Description of the Offer Shares*” on page 30).

USE OF PROCEEDS

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

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, PSE and the holders of the Preferred Shares 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 PSE. In addition, the Company shall submit via the PSE's online disclosure system, the Electronic Disclosure Generation Technology ("**EDGE**"), the following disclosures to ensure transparency in the use of proceeds:

- i. any disbursements made in connection with the planned use of proceeds from the Offer;
- ii. quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;
- iii. annual summary of the application of the proceeds on or before January 31 of the following year; and
- iv. approval by the Board or the Executive Committee of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Company at least 30 days prior to the said actual disbursement or implementation.

The Company shall submit a certification by the Company's Treasurer and external auditor on the accuracy of the information reported by the Company to the PSE, as well as a detailed explanation for any material variances between the actual disbursements and the planned use of proceeds in the relevant Offer Supplement, if any, in the Company's quarterly and annual reports as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

DETERMINATION OF OFFER PRICE

The Offer Price of ₱75.00 is at a premium to the par value of the Offer Shares, which is ₱5.00 per share. The Offer Price was arrived at by dividing the desired gross proceeds of ₱40,000,000,050 by the amount of Offer Shares.

DILUTION

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of the Company as the Offer Shares are non-voting, non-convertible and non-participating. With respect to the outstanding preferred shares, namely, the Series 2 Preferred Shares – subseries “2-C”, “2-D”, “2-E”, “2-F”, “2-G”, “2-H”, and “2-I” (the “**Outstanding Preferred Shares**”), the issuance of the Offer Shares will result in the dilution of the percentage ownership of the holders of the Outstanding Preferred Shares in relation to the total outstanding capital stock of the Company. The Offer Shares rank in *pari passu* with the rights of the holders of the Outstanding Preferred Shares of the Company.

PLAN OF DISTRIBUTION

SMC plans to issue the Offer Shares to institutional and retail investors in the Philippines through a public offering to be conducted through the Underwriters. The Offer does not include an international offering.

The detailed plan of distribution and underwriting arrangements for each tranche of the Offer shall be as set out in the Offer Supplement.

The Underwriters are duly licensed by the SEC to engage in the underwriting or distribution of the Offer Shares. The Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of its business, for SMC or any of its subsidiaries.

The Underwriters have no direct relations with SMC in terms of ownership by either of their respective major shareholder/s and have no right to designate or nominate any member of the Board of Directors of SMC.

The Underwriters have no contract or other arrangement with SMC by which it may return to SMC any unsold Initial Offer Shares.

Sale and Distribution

The distribution and sale of the Offer Shares shall be undertaken by the Underwriters who shall sell and distribute the Offer Shares to third-party buyers/investors. The Underwriters are authorized to organize a syndicate of underwriters, soliciting dealers and/or Selling Agents for the purpose of the Offer. In connection with the foregoing, the Underwriters may enter into agreements, participation agreements, or like agreements with other co-lead managers and managers (who may be named or have been named in the Offer Supplement) and/or Selling Agents, as necessary. There is nothing in such agreements that allow the Underwriters to return to SMC any unsold Offer Shares.

The Company will not allocate any Offer Shares for the Local Small Investors Program of the PSE.

Prior to close of the Offer Period for each tranche of the Offer, any Offer Shares not taken up by the trading participants shall be distributed by the Underwriters directly to their clients and general public. All Offer Shares not taken up by the trading participants, general public, and the Underwriters' clients shall be purchased by the Underwriters pursuant to the terms and conditions of the relevant Underwriting Agreement.

Term of Appointment

The term of the appointment of the Underwriters for each tranche of the Offer shall be as set out in the relevant Offer Supplement.

Manner of Distribution

The Underwriters shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, the Offer Shares shall be solicited, with the sale of the Offer Shares to be effected only through the Underwriters. The Underwriters may appoint other entities, including trading participants, to sell on their behalf.

Offer Period

The Offer Period for each tranche of the Offer shall be set out in the relevant Offer Supplement.

Application to Purchase

The requirements to purchase the Offer Shares shall be set out in the relevant Offer Supplement.

Minimum Purchase

The minimum purchase requirement for the Offer Shares shall be set out in the relevant Offer Supplement.

Payment of the Offer Shares

The terms of payment of the Offer Shares shall be set out in the relevant Offer Supplement.

Refunds

The provision on refunds shall be set out in the relevant Offer Supplement.

Secondary Market

SMC may purchase the Offer Shares, then tradeable at that time, at any time without any obligation to make pro rata purchases of Offer Shares from all Shareholders.

Registry of Shareholders

The Offer Shares will be issued in scripless form through the electronic book-entry system of SMC Stock Transfer Service Corporation as Registrar for the Offer, and lodged with The Philippine Depository & Trust Corp. (“**PDTC**”) as Depository Agent on Listing Date through PSE trading participants nominated by the applicants. Applicants shall indicate in the proper space provided for in the Application Form the name of the PSE trading participant under whose name their Offer Shares will be registered.

Legal title to the Offer Shares will be shown in an electronic register of shareholders (the “**Registry of Shareholders**”) which shall be maintained by the Registrar. The Registrar shall send a transaction confirmation advice confirming every receipt or transfer of the Offer Shares that is effected in the Registry of Shareholders (at the cost of the requesting shareholder). The Registrar shall send (at the cost of the Company) at least once every quarter a statement of account to all shareholders named in the Registry of Shareholders, except certificated shareholders and depository participants, confirming the number of Offer Shares held by each shareholder on record in the Registry of Shareholders. Such statement of account shall serve as evidence of ownership of the relevant shareholder as of a given date thereof. Any request by the shareholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting shareholder.

Expenses

All out-of-pocket expenses, including but not limited to, registration with the SEC, printing, publication, communication and signing expenses incurred by the Underwriters in the negotiation and execution of the transaction will be for the account of SMC, irrespective of whether the transaction contemplated herein is completed. Such expenses are to be reimbursed upon presentation of a composite statement of account. See “*Use of Proceeds*” on the relevant Offer Supplement for details of expenses.

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 5.5% of the Philippine GDP in 2019 based on data from the SMC consolidated revenues in 2019 divided by Philippine’s total revenue sourced from Philippine Statistics Authority.

Originally founded in 1890 as a single 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, 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 July 31, 2020, SMC had a market capitalization of ₱236,006 million, with a common share price of ₱99.00.

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 and a full range of refined petroleum products, 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, 2019 were ₱1,020,502 million, ₱201,687 million and ₱149,755 million.

For the six months ended June 30, 2019, consolidated sales was ₱509,495 million, gross profit was ₱100,877 million and EBITDA was ₱79,876 million compared to consolidated sales of ₱352,796 million, gross profit was ₱53,114 million and EBITDA was ₱42,186 million for the six-month period ended June 30, 2020.

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, 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:

	2017		2018		2019		For the six months ended June 30, 2020	
	Sales	%	Sales	%	Sales	%	Sales	%
	(in ₱ millions)		(in ₱ millions)		(in ₱ millions)		(in ₱ millions)	
Food and Beverage.....	251,589	30.5	286,378	27.9	310,785	30.5	122,815	34.8
Packaging	32,099	3.9	37,325	3.6	37,874	3.7	14,512	4.1
Fuel and Oil.....	434,624	52.6	557,386	54.4	514,362	50.4	152,357	43.2
Energy	82,791	10.0	120,103	11.7	135,060	13.2	57,177	16.2
Infrastructure	22,497	2.7	24,530	2.4	23,406	2.3	6,675	1.9
Others.....	36,989	4.5	38,568	3.8	40,887	4.0	16,666	4.7
Eliminations	(34,503)	(4.2)	(39,347)	(3.8)	(41,872)	(4.1)	(17,406)	(4.9)
Total	826,086	100.00	1,024,943	100.00	1,020,502	100.00	352,796	100.00

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 July 31, 2020, had a market capitalization of ₱381,145 million, with a common share price of ₱64.50. As of June 30, 2020, SMC’s ownership interest in SMFB was 88.76%.

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

	For the years ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	251,589	286,378	310,785	151,107	122,815
Gross profit	83,129	92,142	98,755	45,797	33,241
Gross profit margin ⁽¹⁾	33.0%	32.2%	31.8%	30.3%	27.1%
EBITDA ⁽²⁾	49,938	54,725	58,667	26,562	17,668
EBITDA margin ⁽³⁾	19.8%	19.1%	18.9%	17.6%	14.4%
Net income before tax	39,861	43,361	46,107	20,836	10,259
Net income before tax margin ⁽⁴⁾	15.8%	15.1%	14.8%	13.8%	8.4%

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, San Miguel Yamamura Asia Corporation (“SMYAC”), 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 PET bottles and aluminum cans. As of June 30, 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). As of June 30, 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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	P	P	P	P	P
Sales	32,099	37,325	37,874	17,835	14,512
Gross profit.....	8,896	9,776	10,760	4,882	3,636
Gross profit margin ⁽¹⁾	28.0%	26.0%	28.0%	27.0%	25.0%
EBITDA ⁽²⁾	4,896	5,609	5,824	3,034	1,683
EBITDA margin ⁽³⁾	15.0%	15.0%	15.0%	17.0%	12.0%
Net income before tax.....	2,701	3,107	1,480	1,149	(1,165)
Net income before tax margin ⁽⁴⁾	8.0%	8.0%	4.0%	6.0%	-8.0%

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”), the largest and one of the most modernized, 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 ₱29,157 million, with a common share price of ₱3.11, as of July 31, 2020. As of June 30, 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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	434,624	557,386	514,362	254,807	152,357
Gross profit	42,655	34,562	30,507	17,301	(7,993)
Gross profit margin ⁽¹⁾	9.8%	6.2%	5.9%	6.8%	-5.2%
EBITDA ⁽²⁾	38,343	31,803	29,902	15,893	(9,916)
EBITDA margin ⁽³⁾	8.8%	5.7%	5.8%	6.2%	-6.5%
Net income before tax	18,842	10,455	3,737	3,261	(20,359)
Net income before tax margin ⁽⁴⁾	4.3%	1.9%	0.7%	1.3%	-13.4%

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.

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 4,362 MW of combined capacity as of June 30, 2020. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020, SMC Global Power’s combined capacity increased to 4,697 MW. 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 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 June 30, 2020 comprises approximately 19% of the National Grid, 25% of the Luzon Grid and 8% of the Mindanao Grid. As of June 30, 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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	82,791	120,103	135,060	72,511	57,177
Gross profit	28,965	39,285	43,302	22,284	20,983
Gross profit margin ⁽¹⁾	35.0%	32.7%	32.1%	30.7%	36.7%
EBITDA ⁽²⁾	7,654	10,717	8,297	4,987	6,564
EBITDA margin ⁽³⁾	9.1%	8.9%	6.1%	6.9%	11.5%
Net income before tax	14,396	12,202	21,627	10,947	13,144
Net income before tax margin ⁽⁴⁾	17.4%	10.2%	16.0%	15.1%	23.0%

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 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 and 2, the Southern Luzon Arterial Road tollway (“STAR”), the Tarlac-Pangasinan-La Union Expressway (“TPLEX”) and the Ninoy Aquino International Airport Expressway (“NAIAx”). Ongoing projects include Skyway Stages 3 and 4, the extension of SLEX – Toll Road 4 (“SLEX-TR4”) and the Mass Rail Transit Line 7 (“MRT-7”). 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 June 30, 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 December 31,		For the six months ended June 30,		
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	P	P	P	P	P
Sales	22,497	24,530	23,406	12,315	6,675
Gross profit	13,700	14,893	14,730	7,787	2,844
Gross profit margin ⁽¹⁾	61.0%	61.0%	63.0%	63.0%	43.0%
EBITDA ⁽²⁾	15,857	17,423	17,177	8,757	3,767
EBITDA margin ⁽³⁾	71.0%	71.0%	73.0%	71.0%	56.0%
Net income before tax	6,401	8,899	8,597	4,726	(484)
Net income before tax margin ⁽⁴⁾	29.0%	36.0%	37.0%	38.0%	(7.0%)

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.

SMHC believes that it has benefited from the economic growth of the Philippines as evidenced in the increasing traffic volume as set forth in the table below for the periods indicated.

	For the years ended December 31,		
	2017	2018	2019
SLEX TR 1, 2 & 3	337,164	355,516	366,189
Skyway Stages 1 & 2	256,469	251,361	257,052
STAR	51,490	57,472	62,453
TPLEX ⁽²⁾	18,836	22,272	24,370
NAIAx	64,288	97,561	112,708

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) *Partial operations — Sections 1, 2 and 3A. These reflects AADT for partial operations of Sections 1 and 2 in 2017 and Sections 1, 2 and 3A for 2018 and 2019. There is one remaining section (with two exits – Sison and Rosario) still under construction.*

Others

Other investments of SMC include property development and leasing, through San Miguel Properties, Inc. (“**SMPI**”), car distributorship through SMC Asia Car Distributors Corp., and banking services through Bank of Commerce (“**BOC**”).

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 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 back 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.

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, have triggered changes that 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 first half of 2020 was 19% 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.

San Miguel Foods became the hub for much of the Company’s relief efforts. 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.

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 SMLSI, the Company deployed more than 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 has launched new online ordering platforms, *order.sanmiguelfoods.com* and “*The Mall*”. The Company 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.

Packaging

The Packaging Group’s sales revenues in the first half of 2020 were 19% lower compared to the same period in 2019 due to low volumes from its key customers particularly Beer and Liquor, which were partly offset by the steady deliveries from its health and pharmaceutical customers, improved sales from the Food and Beverage sectors for home consumption, and the stable performance from its Malaysia operations, as well as increased trading and manufacturing activities of the Australasia business.

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 40% in Petron's consolidated revenues for the first half in 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 first six months of 2020 were 21% lower compared to the same period in 2019.

Infrastructure

During the ECQ, the Company 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 40% volume decline and SMHC's consolidated revenues decreased by 46% for the first half of 2020 compared to the first half of 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. The Company paid the Government ₱8.8 billion in advanced taxes, concession, and contractual fees during the early months of the quarantine periods, to help ensure that funds would be available to the Government for its critical response to the pandemic.

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 June 30, 2020, the Company's efforts resulted in over ₱511 million worth of food given out to 173 LGUs, seven national government agencies, 63 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 *pan de sal* 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. As of June 2020, the Company has purchased 78 million kilograms of corn to date, 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.

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 ₱500 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 ₱7 million to fund the construction of ten emergency quarantine facilities with a total capacity of 150 beds in various military camps nationwide.

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 June 30, 2020, SMC donated five sets of PCR testing machines and high-throughput RNA extraction systems to different government hospitals, which boosted capacity by 11,000 tests a day, effectively doubling the country’s testing capacity at a time. The Company also delivered the equivalent of 34,000 tests to further boost government’s testing capacity.

Across the Company, assistance and support to medical front liners 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 mid-August 2020, SMC, through GSMI, donated 1.3 million liters of alcohol, amounting to ₱97.1 million, to 3,626 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 ₱30.7 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.

Ensuring Employee Safety and Well-Being

To ensure a safe return to work for the Company’s employees, SMC purchased enough 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 and to protect its facilities, 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 impacts 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.

Update on Proposed Holcim Acquisition

On May 11, 2020, the Company disclosed to the PSE that the agreement on the proposed acquisition by First Stronghold Cement Industries Inc. (“FSCII”, a wholly-owned subsidiary of San Miguel Equity Investments Inc., which in turn is 100%-owned by the Company) of 85.73% shares of Holcim Philippines, Inc. (“HPI”) from the corporations controlled by Lafarge Holcim Ltd. has lapsed in accordance with its terms: completion of the acquisition required the approval of the Philippine Competition Commission (“PCC”), which was not able to be achieved. In view thereof, the proposed acquisition by FSCII of the 85.73% of HPI no longer proceeded. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders. As disclosed by the Company to the PSE on May 14, 2020, a notice of withdrawal of the notification to the PCC relating to the proposed acquisition was filed on May 13, 2020.

Other Recent Developments

Amid the COVID-19 related measures, the Company continued to conduct its corporate activities. On April 14, 2020, the Company redeemed its Series 1 Preferred Shares consisting of 279,406,667 shares and amounting to ₱21 billion. On May 25, 2020, the Company redeemed ₱10.0 billion of 2-Year Fixed Rate Notes. In addition, the Company continued to meet its contractual obligations even as the Government provided an option for relief or deferment of payments.

On January 23, 2020, the Company declared dividends to its Preferred Shares amounting to ₱1,700 million to holders of record as of March 20, 2020. The cash dividends were paid on April 3, 2020.

On February 5, 2020, the Company established a U.S.\$3,000,000,000 Medium Term Note Programme (“**MTN Programme**”) with DBS Bank Ltd. and Standard Chartered Bank as arrangers and Australia and New Zealand Banking Group Limited, Credit Suisse (Singapore) Limited, DBS Bank Ltd., Mizuho Securities Asia Limited, Standard Chartered Bank and UBS AG Singapore Branch as dealer. Under this MTN Programme, the Company may issue notes or perpetual securities in bearer or registered form and denominated in any currency agreed between the Company and the relevant dealer.

On March 12, 2020, the Company declared dividends on its common shares amounting to ₱834 million to holders of record as of April 3, 2020. The cash dividends were paid on April 30, 2020.

On June 17, 2020, the Company announced the passing of its Chairman and Chief Executive Officer, Mr. Eduardo M. Cojuangco, Jr. on June 16, 2020. He had served as the Chairman of the Board and the Chief Executive Officer of the Company since July 7, 1998. Said positions remain vacant as of the date of this Prospectus.

On July 15, 2020, the Company completed and opened the entire stretch of 89.21 kms of the Tarlac-Pangasinan-La Union Expressway (TPLEX).

On 29 July 2020, the Company issued U.S.\$500 million Senior Perpetual Capital Securities under its MTN Programme and on 30 July 2020, the securities were listed in the Singapore Exchange Securities Trading Limited.

On August 6, 2020, the Company declared cash dividends on the preferred shares as follows:

Class of Shares	Dividend Amount per share
Series 2 Preferred Shares – Subseries C	₱ 1.50
Series 2 Preferred Shares – Subseries D	₱ 1.11433125
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

On August 6, 2020, the Company announced the redemption of the outstanding and issued Series 2 Preferred Shares – subseries D (the “**SMC2D**” Preferred Shares) at a redemption price of ₱75.00 per share, together with any unpaid cash dividends. The Company shall issue a Notice of Redemption by publication and by mail on September 14, 2020. The SMC2D Preferred Shares, upon redemption, shall not be considered retired and may be re-issued by the Company.

On September 14, 2020, the Company received a favorable decision from the SEC En Banc denying the Appeal-Memorandum and affirming the decision of the SEC Special Hearing Panel dated February 19, 2019 in the case entitled “Josefina Multi-Ventures Corporation vs. SMC, SMFB and GSMI” docketed as SEC Case No. 05-18-468 relating to the share swap transaction between SMFB and SMC.

On September 21, 2020, the Company also redeemed its Series 2-D preferred shares consisting of 89,333,400 shares amounting to ₱6.7 billion.

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%. 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 5.5% of the Philippine GDP in 2019. 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, and property 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%, according to GlobalData. As of June 30, 2020, the Spirits business, had leading market share in the gin category by volume of 97.7%, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of the same period, the Food Division, is a market leader in several categories: 62.3% for hotdogs, 25.2% for corned meats, 12.7% for luncheon meats, 23.0% for cheese, 41.7% for refrigerated butter, 95.2% for refrigerated margarine, and 97.7% for non-refrigerated margarine, 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 and spirit 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, metal, plastic, aluminum cans, paper, flexibles, PET and other packaging products and services, such as beverage tolling for PET bottles and aluminum cans. 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 June 30, 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, 2019, 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. As of June 30, 2020, Petron had more than 2,400 retail service stations, an increase of approximately 89.0% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of June 30, 2020, Petron's retail service stations represent approximately 25.0% of the country's total service station count. In Malaysia, Petron ranked third in the retail market with more than 21.0% market share as of June 30, 2020, based on Petron 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.

Energy: SMC Global Power, together with its subsidiaries, associates and joint ventures, is one of the largest power companies in the Philippines, controlling 4,362 MW of combined capacity as of June 30, 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 the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19.0% of the National Grid, 25.0% of the Luzon Grid and 8.0% of the Mindanao Grid, as of June 30, 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 55.45% of the total road length of awarded toll road projects.

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, 2019, the Food and Beverage and Packaging businesses provided 34.0% of consolidated sales and 41.0% of total EBITDA of SMC. The fuel and oil energy and infrastructure businesses, on the other hand, contributed 66% 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 as 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 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, maximize synergies across operations, and improve 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 and arrest the growth of other industry players; (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. In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 700 retail service stations as of June 30, 2020. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians. 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 and 2, 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 Stages 3 and 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 products from various businesses. Currently, SMC is pursuing several initiatives that will create possible savings and help promote its different brands. For example, the Company will establish 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. SMC will also maximize the use of its radio-frequency identification technology (RFIDs) that tollroads use as payment, 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 has deployed more than 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, *order.sanmiguelfoods.com*. On July 20, 2020, SMC launched "*The Mall*", 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. On September 18, 2019, San Miguel Aerocity Inc. (“**SMAI**”) signed a concession agreement with DOTr to construct and operate the New Manila International Airport (“**NMIA**”) 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 2019, 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, four feedmills, and an additional flour mill. 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

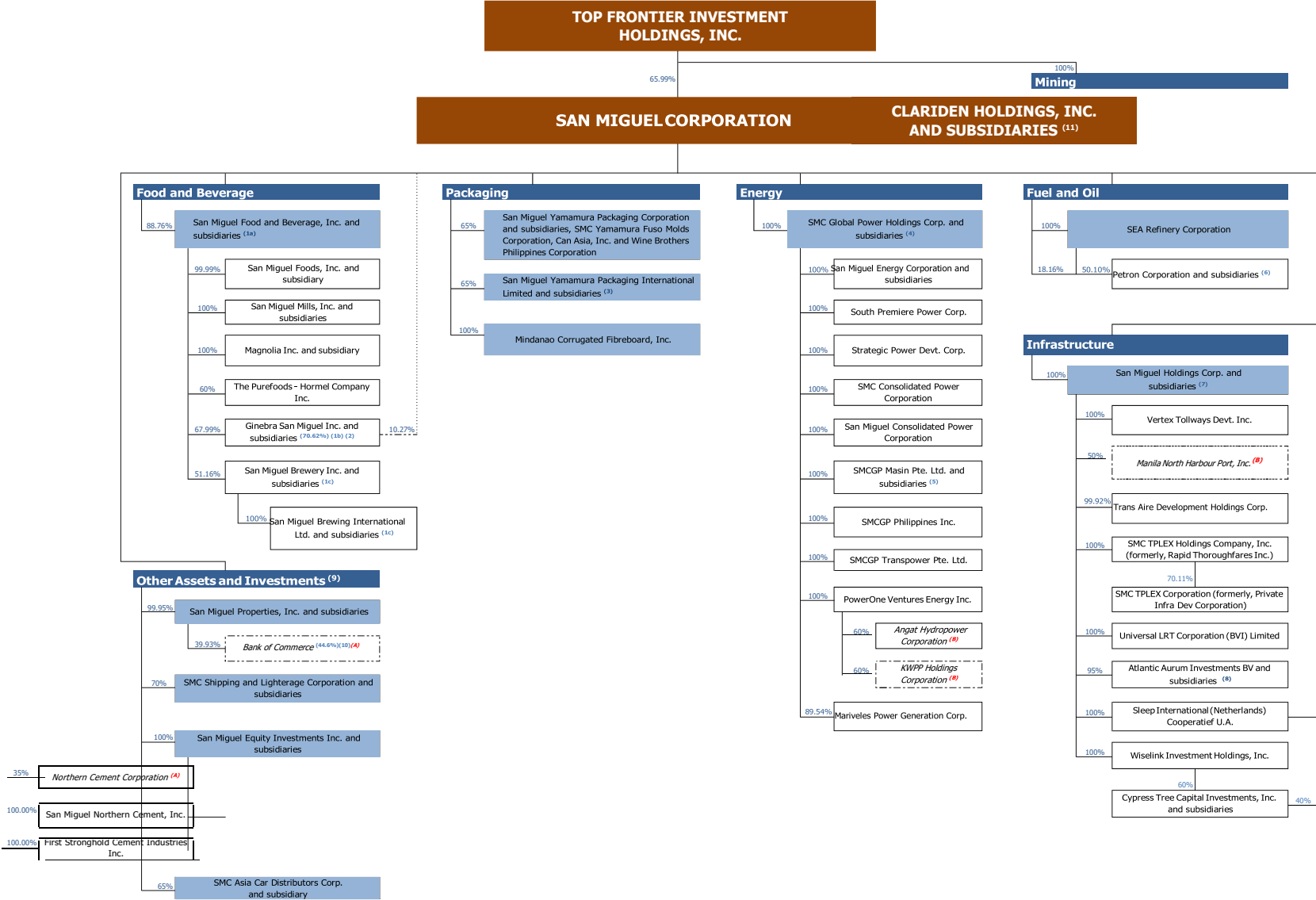
temporarily suspend production of liquor products and switch to the production of 70% ethyl alcohol. By the first week of April 2020, all other GSMI facilities nationwide were producing disinfecting alcohol, bringing total capacity to 100,000 litres per day.

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.

SMC CORPORATE STRUCTURE

The table below presents a summary of the corporate organization of SMC as of June 30, 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.

Note:
(A) Associate
(B) 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 Company Limited is in the process of liquidation as at June 30, 2020.
2. San Miguel Food and Beverage Inc. owns 67.99% of issued and outstanding common and preferred shares of Ginebra San Miguel Inc. San Miguel Corporation owns the total issued and outstanding preferred shares of Ginebra San Miguel Inc. equivalent to direct ownership of 10.27%. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 70.62% of total issued and outstanding common and preferred 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) and Prime Electric Generation Corporation and subsidiary, Alpha Water and Realty Services, Corp.
5. SMCGP Masin Pte. Ltd. subsidiaries include Strategic Holdings B.V., SMCGP Masinloc Partners Company Limited, SMCGP Philippines Energy Storage Co. Ltd., SMCGP Masinloc Power Company Limited, Transpower Holdings B.V., and Masinloc Power Partners Co. Ltd. SMCGP Masin Pte. Ltd. is in the process of liquidation as at June 30, 2020.
6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), 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, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc., San Miguel Aerocity Inc. and Luzon Clean Water Development Corporation.
8. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and 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., 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 June 30, 2020, SMC had a total of approximately 45,148 regular employees. Substantially all of the employees are based in the Philippines and other areas in the Asia-Pacific region. As of June 30, 2020, the approximate number of employees in each of the businesses is set forth below:

Number of Employees

Business	No.
Food and Beverage	11,143
Packaging	4,247
Fuel and Oil	2,829
Energy	1,523
Infrastructure	5,092
Other Operations and Investments	<u>20,314</u>
Total	45,148

As of June 30, 2020, approximately 14% 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, including those set out below. The outcome of these proceedings cannot be presently determined or predicted with certainty.

Ilijan IPPA Agreement Dispute

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 its position 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 Regional Trial Court (“**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 the same date, the RTC issued a 72-hour TRO prohibiting 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 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 was 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 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 was pending; (2) Motion for Reconsideration of the Order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. Subsequently, PSALM filed a Petition for Certiorari with the Court of Appeals seeking to annul the order dated June 27, 2016. 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 of the CA Decision. In a Resolution dated July 12, 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 dated September 4, 2018 before the Supreme Court praying for the reversal and nullification of the CA Decision and the CA Resolution. Said petition was denied by the Supreme Court in its Resolution dated March 4, 2019, 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 this Court’s discretionary appellate jurisdiction.

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 TEO 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. On August 23, 2019, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM.

Meanwhile, the proceedings before the RTC continue and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without 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 IPPA Agreement in 2022.

For further details on pending legal proceedings of the Company and some of its subsidiaries, please refer to notes 24 and 44 of the audited financial statements of the Company for the period ended December 31, 2019. Other than those mentioned above, 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 (DD/MM/YR)	Expiry Date (DD/MM/YR)
1	Certificate of Incorporation (PW-277)	SEC	21/8/1913	N/A ¹
2	Certificate of Registration	BIR	06/09/1990	N/A
3	Business Permit	City of Mandaluyong	17/01/2020	31/12/2020

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

¹ By virtue of Section 11 of Republic Act No. 11232, otherwise known as the Revised Corporation Code of the Philippines.

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.

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.

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 GSMI, 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, 2017, 2018 and 2019, the food and beverage businesses had sales of ₱251,589 million, ₱286,378 million and ₱310,785 million; gross profit of ₱83,129 million, ₱92,142 million and ₱98,755 million; and net income of ₱28,226 million, ₱30,533 million and ₱32,279 million, respectively.

For the six-month period ended June 30, 2019, SMFB had sales of ₱151,107 million, gross profit of ₱45,797 million and net income of ₱14,670 million compared to sales of ₱122,815 million, gross profit of ₱33,241 million, and net income of ₱7,338 million for the six-month period ended June 30, 2020.

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

	For the years ended December 31,						For the six-month period ended June 30,			
	2017		2018		2019		2019		2020	
	₱	%	₱	%	₱	%	₱	%	₱	%
	(in millions, except for percentages)									
Sales ⁽¹⁾										
Beverage Business										
Beer and NAB Division.....	₱113,250	45.0	₱129,245	45.0	₱142,267	46.0	₱70,283	46.0	₱42,793	35.0
Spirits Division..	20,891	8.0	24,835	9.0	29,063	9.0	14,695	10.0	14,842	12.0
Food Division...	117,448	47.0	132,298	46.0	139,455	45.0	66,129	44.0	65,180	53.0
Total	₱251,589	100	₱286,378	100	₱310,785	100	₱151,107	100	₱122,815	100

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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
Sales.....	₱ 251,589	₱ 286,378	₱ 310,785	₱ 151,107	₱ 122,815
Gross profit	83,129	92,142	98,755	45,797	33,241
Gross profit margin ⁽¹⁾	33.0%	32.2%	31.8%	30.3%	27.1%
EBITDA ⁽²⁾	49,938	54,725	58,667	26,562	17,668
EBITDA margin ⁽³⁾	19.8%	19.1%	18.9%	17.6%	14.4%
Net income before tax	39,861	43,361	46,107	20,836	10,259
Net income before tax margin ⁽⁴⁾	15.8%	15.1%	14.8%	13.8%	8.4%

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 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 ₱310,785 million and ₱122,815 million and consolidated net income of ₱32,279 million and ₱7,338 million for the year ended December 31, 2019 and June 30, 2020, respectively. 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 130 years of heritage has allowed SMFB 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 Global Data as of 2019. According to The Nielsen Company (Copyright © 2018, 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 92.5% and 63.9% volume share, respectively, as of December 31, 2019. 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 San Miguel 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. San Miguel 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 June 30, 2020, the Spirits business, had leading market share in the gin category by volume of 97.7%, according to The Nielsen Company (Copyright © 2020, The Nielsen Company). As of the same period, the Food Division, is a market leader in several categories: 62.3% for hotdogs, 25.2% for

corned meats, 12.7% for luncheon meats, 23.0% for cheese, 41.7% for refrigerated butter, 95.2% for refrigerated margarine, and 97.7% for non-refrigerated margarine, 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 throughout the year, 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 13th 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 taking market share from other spirits 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 36 feedmills, 64 processing plants, and around 1,400 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 141,000 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 56% of total glass bottles used were retrieved by and purchased from bottle suppliers for the year ended December 31, 2019 and 67% for

the six-month period ended June 30, 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. It is also converting its existing beer production facility located in Sta. Rosa, Laguna to a full brewery facility to serve growing requirements in South Luzon.

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, to date, has already started its commercial operations. The facility is expected to serve Northern Mindanao and adjacent areas which, to date, is awaiting the necessary permits to start commercial operations. 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 June 30, 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 nine 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 San Miguel 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 June 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 June 30, 2020, SMFB held 51.16% and 67.99% of the outstanding common capital stock of SMB and GSMI, respectively.

SMB is the largest producer of beer in the Philippines and is the largest contributor to the beverage business, accounting for 83.0% and 74.0% of total beverage business sales for the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively. 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 17.0% and 26.0% of total beverage business sales for the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively.

The beverage business had combined sales of ₱134,141 million, ₱154,080 million, and ₱171,330 million for the years ended December 31, 2017, 2018 and 2019, respectively. For the six-month period ended June 30, 2019 and 2020, the beverage business had total sales of ₱84,978 million and ₱57,635 million, 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 21.4 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 4.5 million HL/year. In total, the Beer and NAB Division's beer production capacity is 25.9 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. Beer products are exported to more than 70 countries and territories across the globe. International operations accounted for 9.7% and 10.1% of the total sales of the Beer and NAB Division for the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively.

For the years ended December 31, 2017, 2018 and 2019, sales of the Beer and NAB Division were ₱113,250 million, ₱129,245 million, and ₱142,267 million, respectively, and net income was ₱20,711 million, ₱23,836 million, and ₱27,285 million, respectively.

For the six-month period ended June 30, 2019, the Beer and NAB Division had sales of ₱70,283 million and net income of ₱13,258 million compared to sales of ₱42,793 million and net income of ₱5,023 million for the six-month period ended June 30, 2020.

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; (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 was established in 2019. The domestic production facilities have a total production capacity of 21.4 million HL/year as of June 30, 2020. The Sta. Rosa facility completed an additional packaging line in the fourth quarter of 2018, and the conversion into a full-fledged brewery is expected to be delivered in the fourth quarter of 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 4.5 million HL/year, as of June 30, 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, 2019 and the six-month period ended June 30, 2020, over 93% 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. As of June 30, 2020, products of the Beer and NAB Division are distributed and sold at over 400,000 outlets, including off-premise outlets such as supermarkets, grocery stores, mom and pop stores and convenience stores accounting for 92.0% of total outlets and on-premise outlets such as bars, restaurants and hotels accounting for 8% of total outlets through over 50 sales offices and approximately 500 dealers throughout the Philippines.

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 June 30, 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.

SMB also operates a delivery service in Metro Manila and selected cities through its "632-BEER" (8632-2337) hotline delivery program that allows customers to place orders by calling, text messaging or ordering online (www.smbdelivers.com). The delivery service taps into emerging segments, such as consumers located at home or in other private spaces that prefer to directly place orders for beer.

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 4.5 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 9.7% and 10.1% of the Beer and NAB Division's total sales for the year ended December 31, 2019 and the six-month period ended June 30, 2020, respectively.

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 (10) 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. San Miguel Flavored Beer has been posting strong growth since its launch.

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 91.5% and 69.2% volume share, respectively, as of June 30, 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 30.2% 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 88% to GSMI’s total sales for year ended December 31, 2019 and the six-month period ended June 30, 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 141,000 outlets across the archipelago through 89 dealer sites and 15 sales offices as of June 30, 2020.

GSMI is a public company listed on the PSE under the stock symbol “GSMI”. The market capitalization of GSMI was ₱9,449 million, with a common share price of ₱33.00, as of July 31, 2020.

For the years ended December 31, 2017, 2018, and 2019, GSMI’s sales were ₱20,892 million, ₱24,835 million, and ₱29,063 million, respectively, and for the years ended December 31, 2017, 2018, and 2019, the net income was ₱602 million and ₱1,053 million, and ₱1,672 million, respectively.

For the six-month period ended June 30, 2019, sales was ₱14,695 million and net income was ₱980 million compared to sales of ₱14,843 million and net income was ₱1,257 million for the six-month period ended June 30, 2020.

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 57 gold, silver and bronze medals have been received for various distilled spirits products. The latest awards in 2017 included gold medals from Monde Selection for *GSM Blue*, *Ginebra San Miguel Premium Gin* and *Ginebra San Miguel*, and silver medals for *GSM Blue Flavors Mojito*, *Vino Kulafu* 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, 2019 and the six-month period ended June 30, 2020, approximately 56% and 67% of glass bottles used were second-hand bottles retrieved by and purchased from these bottle suppliers, respectively. 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 June 30, 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. As of the same period, approximately 141,000 retail outlets are covered and served by the dealers, including general trade outlets accounting for 94% of total outlets and modern trade outlets, accounting for 6% 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, posterizing 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.

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, 2017, 2018, and 2019, sales for the Food Division amounts ₱117,448 million, ₱132,298 million, and ₱139,455 million, respectively. For the six-month period ended June 30, 2019 and 2020, sales for the Food Division amounts to ₱66,129 million and ₱65,180 million, respectively.

For the years ended December 31, 2017, 2018, and 2019, operating results for the Food Division amounts to ₱9,926 million, ₱8,826 million, and ₱6,176 million respectively. For the six-month period ended June 30, 2019 and 2020, operating results for the Food Division amounts to ₱1,035 million and ₱2,195 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. ("**SMSCCI**"). 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 *Jellyace* 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) (“**PTSMPEFI**”) and San Miguel Pure Foods (Vn) Co., Ltd. (“**SMPFVN**”) in Vietnam, a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPEFI 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 June 30, 2020, facilities include 36 feedmills, 64 processing plants, and close to 1,400 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 15 company-owned feedmills, seven of which are located in Luzon, four in Visayas and four in Mindanao, plus 21 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 June 30, 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, 32 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 June 30, 2020, about 94% of the business' hog growing capacities are third party-owned and operated under tolling arrangements. Approximately 60% 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, 2019 and the six-month period June 30, 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.

An additional flour milling facility is being commissioned in Mabini, Batangas which is expected to be operational by early 2020. The Food Division's new ready-to-eat production facility also started its commercial runs in first quarter of 2020.

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 nine-month period ended June 30, 2020, 80% 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, 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, 2019, 55% of the production volume was used for the Food Division's internal requirements, while the remaining 45% was sold to the commercial feeds market. As of six-month period ended June 30, 2020, volumes accounted for 54% and 46%, respectively, of the feeds production volumes. 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, 2019, approximately 89% of products are sold through authorized distributors within a defined territory, while 11% is sold directly to hog, poultry and aquatic farm operators. For the sale of commercial feeds products, there are 18 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 June 30, 2020, there are more than 1,300 Magnolia Chicken Stations nationwide, 18% 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 June 30, 2020, there were more than 600 Monterey Meatshops throughout the Philippines, 62% of which were franchised, with the remainder being third party-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 June 30, 2020, the Food Division has 62.3% market share for hotdogs, 25.2% for corned meats, and 12.7% for luncheon meats.

According to The Nielsen Company (Copyright © 2020, The Nielsen Company), as of the year ended June 30, 2020, the Food Division has a market share of 41.7% for refrigerated butter, 95.2% for refrigerated margarine and 97.7% 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 June 30, 2020, the Magnolia brand has a 23.0% 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 marks, 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; SMYAC, the largest glass manufacturer in the Philippines and also a joint venture company of SMC and NYG, 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 PET bottles and cans, 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, 2017, 2018 and 2019, the Packaging Group had sales of ₱32,099, ₱37,325 and ₱37,874; gross profit of ₱8,896, ₱9,776 and ₱10,760; and net income before tax of ₱2,701, ₱3,107 and ₱1,480, respectively.

For the six-month period ended June 30, 2020, the Packaging Group had sales of ₱14,512, net loss before tax of ₱1,165 and gross profit of ₱3,636 compared to sales of ₱17,835, net income before tax of ₱1,149 and gross profit of ₱4,882 for the six-month period ended June 30, 2019.

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

	For the years ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	32,099	37,325	37,874	17,835	14,512
Gross profit.....	8,896	9,776	10,760	4,882	3,636
Gross profit margin ⁽¹⁾	28.0%	26.0%	28.0%	27.0%	25.0%
EBITDA ⁽²⁾	4,896	5,609	5,824	3,034	1,683
EBITDA margin ⁽³⁾	15.0%	15.0%	15.0%	17.0%	12.0%
Net income before tax	2,701	3,107	1,480	1,149	(1,165)
Net income before tax margin ⁽⁴⁾	8.0%	8.0%	4.0%	6.0%	-8.0%

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 PET bottles and aluminum cans.

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, 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.

In the past five years, PET bottles for beverages recorded growth due to its aesthetic appeal, light weight and sleek design, which is very convenient for consumers. 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 Can-Pack 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, 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 SMYAC 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 Can-Pack S.A., for the modernization of the two-piece aluminum can manufacturing business. Utilizing the know-how and technologies of Can-Pack Group on can manufacturing, CAI is now capable 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 and the Asia Pacific region, the business has expanded its product line to offer 180 ml aluminum cans in 2018. To-date, CAI is capable of producing six can sizes.

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.

PET

The PET business produces PET preforms and bottles, plastic caps and handles, serving the beer, liquor, non-alcoholic beverages, food, pharmaceutical, personal care and industrial applications industries. 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.

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.

Plastics

The plastics business produces plastic crates and pallets, plastic poultry flooring, food trays, plastic consumer and industrial containers, and plastic pails and tubs to domestic and international markets serving companies in industries, such beer and beverages, chicken and agriculture.

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, two PET packaging and filling plants, one composite plant, and one paper plant. The plants are strategically located throughout the Philippines. It also owns and operates 21 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 and the Packaging Group believes that providing total packaging solutions coupled with excellent customer service has been a core strength over its competition. Furthermore, SMYPC has been improving and upgrading its manufacturing facilities as well as offer 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 June 30, 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, 2019. 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 June 30, 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 June 30, 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 June 30, 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 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 ₱8,954 million or 6% of total sales, as of June 30 2020.

In 2017, 2018 and 2019, Petron’s sales were ₱434,624 million, ₱557,386 million and ₱514,362 million, respectively, and net income was ₱14,087 million, ₱7,069 million and ₱2,303 million, respectively. For the six months ended in June 30, 2019, Petron’s sales and net income were ₱254,807 million and ₱ 2,620 million, compared to sales and net loss of ₱152,357 million and ₱14,236 million for the six months ended June 30, 2020, 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 July 31, 2020, Petron had a market capitalization of ₱29,156,574,986 with a common share price of ₱3.11.

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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
	₱	₱	₱	₱	₱
Sales	434,624	557,386	514,362	254,807	152,357
Gross profit	42,655	34,562	30,507	17,301	(7,993)
Gross profit margin ⁽¹⁾	9.8%	6.2%	5.9%	6.8%	-5.2%
EBITDA ⁽²⁾	38,343	31,803	29,902	15,893	(9,916)
EBITDA margin ⁽³⁾	8.8%	5.7%	5.8%	6.2%	-6.5%
Net income before tax	18,842	10,455	3,737	3,261	(20,359)
Net income before tax margin ⁽⁴⁾	4.3%	1.9%	0.7%	1.3%	-13.4%

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.

Petron's revenues from foreign sales amounted to ₱212,917 million or 41% of total revenues for the year ended December 31, 2019 compared to foreign sales amounted to ₱62,858 million or 41% of total revenues for the period ended June 30, 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 26.5% of the Philippine oil market as of December 31, 2019 in terms of sales volume, based on 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. 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.

Petron believes that it has the most extensive distribution network for petroleum products in the Philippines, which allows it to operate and serve its customers across the Philippines. This distribution network includes 33 terminals and 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 maintaining Petron's leading position in the Philippines. Since 2011, Petron has focused on expanding its distribution network to accommodate the increasing demand across the Philippines and will continue to invest in the expansion of its distribution network. Petron's strong participation in the different market segments such as retail, LPG and bulk industrial customer operations also plays a large role in its success in the Philippine downstream oil sector.

As of June 30, 2020, Petron had more than 2,400 retail service stations, an increase of approximately 89.0% from about 1,288 service stations in 2008, which Petron believes to be greater than any other market participant in the Philippines. As of June 30, 2020, Petron's retail service stations represent approximately 25.0% of the country's total service station count. Petron intends to grow this number to utilize the increased production from RMP-2.

Petron believes it is the leader in the LPG segment with more than 1,100 branch stores as of June 30, 2020. Petron's industrial sales cover approximately more than 600 direct industrial accounts as of June 30, 2020.

Established position in the Malaysian downstream oil sector

Petron has an established position in the Malaysian downstream oil sector through its acquisition of ExxonMobil's downstream oil business in Malaysia, which has a recognized health, safety and environmental track record. This provides geographic diversification to its portfolio, an additional platform to expand its business and added stability to its operations.

As of June 30, 2020, Petron ranked third in the Malaysian retail market with more than 21.0% 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, 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 LSWR. As of June 30, 2020, Petron had 10 product terminals, a network of approximately 700 retail service stations, and about 300 Treats convenience stores in Malaysia. Petron also participates in the aviation segment with a 20% ownership of a multi-product pipeline to Kuala Lumpur International Airport. The joint venture through which Petron owns its

interest in the multi-product pipeline also owns a fuel terminal, the Klang Valley Distribution Terminal.

Operating a highly complex refinery

Over the years, Petron has developed and maintained a strong core base of petroleum products, and consistently made significant investments in upgrading its facilities and focused on increasing production of higher margin White Products and petrochemicals while minimizing production of low margin fuel products.

RMP-2, a U.S.\$2 billion project completed in the fourth quarter of 2014, enables the Limay Refinery to further enhance its operational efficiencies, convert its fuel oil production into production of more White Products, and increase Petron's production of petrochemical feedstock like propylene, benzene, toluene and xylene. The completion of RMP-2 has made Petron the first oil company in the Philippines capable of producing Euro IV and Euro VI-standard fuels, the global standard for clean air fuels. The upgraded production capability has improved refinery utilization rate to about 94.0% and increased White Products Yield to approximately 100.0%, compared to previous operating levels of approximately 57.0% utilization rate and White Products Yield of approximately 80.0% prior RMP-2.

Operations in markets with favourable industry dynamics

Petron operates as an integrated oil refining and marketing company in the Philippines and Malaysia, both of which Petron believes have favourable oil industry dynamics. 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. This favourable economic backdrop is expected to contribute to energy and petroleum products demand growth in these countries. Both the Philippines and Malaysia are importers of finished petroleum products. Petron believes it is well-positioned to benefit from this supply shortfall with its current production capacities of 180,000 and 88,000 barrels per day in the Philippines and Malaysia, respectively, giving it a significant competitive advantage over its competitors.

Differentiated service experience driving retail volumes

Petron's network of service stations in the Philippines and Malaysia offers differentiated and comprehensive services to customers. Beyond just a petroleum station, Petron's service station provides a one-stop service experience to travellers 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.

As of June 30, 2020, Petron has more than 2,400 retail service stations in the Philippines representing approximately 25.0% of the country's total service station count. As of June 30, 2020, Petron's LPG distribution network includes 1,100 branch stores and more than 1,900 service stations selling Gasul, while for Lubes, 41 car care centres, 112 auto/motorcycle care shops, and more than 1,900 service stations selling lube products.

In Malaysia, Petron rebranded all ExxonMobil Esso-branded service stations to the Petron brand and refurbished the stations. As of June 30, 2020, about 300 of Petron's network of approximately 700 service stations in Malaysia have Treats convenience stores. Petron has also partnered with the Royal Malaysia Police to set up "Go-to Safety Points" at selected Petron stations in Malaysia.

Petron also offers loyalty programs that complement its retail business. Petron continues to upgrade existing loyalty programs and offer new and diverse programs to cater to customers' unique needs. Some of the benefits of the program include 24-hour free towing and roadside assistance, reward points for every purchase and complimentary annual personal accident insurance coverage for Philippine customers. As of June 30, 2020, the extent of Petron's programs includes approximately 212,000 active fleet cards in the Philippines and approximately 101,000 in Malaysia, approximately 5.6 million issued value cards in the Philippines, and approximately 11.5 million Petron Miles Loyalty cards in Malaysia.

Experienced management team and employees and strong principal shareholder in SMC

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 Limay 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 Petron is approximately nine years for both the Philippines and Malaysia.

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 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. The RMP-2 program, which exemplifies this strategic focus, increases revenues, reduces costs, and places the Limay Refinery's utilization, processing and energy efficiency at par with more advanced refineries in the region, improving its competitiveness. Going forward, Petron expects to continue investing in upgrading its production capability.

In the medium term, Petron will assess the viability of further expanding the Limay Refinery's value generation through upgrading its petrochemicals facilities to increase production of petrochemicals benzene, toluene and mixed xylene, and enable production of higher value para-xylenes.

Further increase market share in the downstream oil markets in the Philippines and in 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 is still underserved and has strong potential for growth. To capture this growth and further strengthen its market position, Petron will embark on: (i) increasing its retail outlets for fuels and LPG to improve market penetration and arrest the growth of other industry players; (ii) introducing new products with differentiated and superior qualities; (iii) 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; (iv) continuing 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) intensifying 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.

In Malaysia, Petron intends to increase its market share by expanding its existing Malaysian retail network of approximately 700 retail service stations. Petron plans to strategically increase its presence in developing areas to make its products and services accessible to more Malaysians.

In addition, Petron seeks to maintain and further strengthen its established position in the Philippines and Malaysia by reinforcing business relationships with existing customers, by providing differentiated service offerings in its retail service stations and by promoting enhanced loyalty programs in both countries.

Continue investments to improve operational efficiency and profitability and to increase market reach

Petron has undertaken a number of strategic projects such as the RMP-2 aimed at improving operational efficiency and profitability and increasing market reach through the expansion of Petron's service station network.

Petron also intends to 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) reducing inventory levels in the Philippines by sourcing feedstock from suppliers located near the Limay Refinery; (iii) investing in new receiving and storage facilities and improving the existing facilities to attain greater sourcing flexibility and support new growth areas; (iv) managing crude oil freight costs and availability of terminal-compliant vessels with contracts of affreightment that guarantee cost competitiveness in the spot market; and (v) 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.

Pursue 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. For example, in March 2010, Petron acquired a 40% stake in Petrochemical Asia (HK) Ltd. ("**PAHL**"), which owned Philippine Polypropylene Inc. ("**PPI**"), through a wholly-owned subsidiary Robisons International Holdings Limited ("**RIHL**"). PPI operated a polypropylene plant owned by RIHL located in Mariveles, Bataan in the Philippines, which has the capacity to produce 160,000 metric tons of polypropylene resin annually. On July 1, 2014, Petron acquired and took over the operations of the polypropylene plant in order to enhance the overall efficiency of the petrochemical operations of Petron. As of July 25, 2016, Petron had increased its stake in PAHL to 100%. In addition, on March 30, 2012, Petron completed its acquisition of ExxonMobil's downstream business in Malaysia, extending its portfolio of oil refining and marketing businesses outside the Philippines.

On December 23, 2016, Petron acquired from SMC Powergen Inc. a 140MW cogeneration power plant located in the Limay Refinery, which supplies the power and steam requirements of the Limay Refinery. The acquisition is expected to lower steam and power costs.

On March 1, 2019, Petron completed the acquisition of a PME production plant in Lumut, Perak, with an annual capacity of 60,000 MT. The PME plant contributed to savings in PME expenses.

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, 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 a single buoy mooring (“**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 June 30, 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 June 30, 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 Exxon Mobil Exploration and Production Malaysia Inc. ("**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 Dec. 31, 2019 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2020. Petron commissioned 11 mini-refilling plants in the Philippines as of June 30, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 Research Octane Number ("RON") fuel with the roll out of the new Blaze 100 to eight pilot sites in Klang Valley. As of June 30, 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 RON95 gasoline and diesel to unbranded mini stations represented approximately about 40% of Industrial Sales in Malaysia by volume in 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 June 30, 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, we have identified three Brand Promises to drive our 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 *Petron Miles Loyalty Cards* in April 2014 as part of its rebranding program in Malaysia. As of June 30, 2020, approximately 11.5 million Petron Miles Loyalty 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 Klang Valley Distribution Terminal ("**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 a multi-product pipeline (the "**MPP**"), which is partly owned by Petron through its 20.0% 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 Klang Valley Distribution Terminal, 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 Klang Valley Distribution Terminal. 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 Klang Valley Distribution Terminal 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, Seaoil and other new participants in major thoroughfares. Petron has more than 2,400 retail service stations as of June 30, 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 June 30 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, 2019. 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 2017, 2018 and 2019 were approximately 63,000 barrels per day, 59,000 barrels per day, and 53,000 barrels per day, respectively. Petron's non-retail sales volumes (including industrial, LPG, and export and supply sales) for the years ended 2017, 2018 and 2019 were approximately 108,000 barrels per day, 115,000 barrels per day, and 105,000 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 June 30, 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 2017, 2018 and 2019 were approximately 73,000 barrels per day, 80,000 barrels per day, 83,000 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 ₱65 million in 2017, approximately ₱86 million in 2018, and approximately ₱76 million in 2019, which are equivalent to less than 15.0% of total revenues in 2017, 2018, and 2019. The lower spend in 2019 is mainly attributed to the introduction and implementation of Total Quality Management (TQM) focused on resource rationalization and process improvement programs.

As of June 30, 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 4,362 MW of combined capacity as of June 30, 2020. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020, SMC Global Power's combined capacity increased to 4,697 MW. 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 the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19.0% of the National Grid, 25.0% of the Luzon Grid and 8.0% of the Mindanao Grid, in each case as of June 30, 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 Angat Hydroelectric Power Plant (the “**AHEPP**”). More recently, 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.). 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 nearing completion (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 has commenced pre-construction of a 20 MWh battery energy storage system facility in Kabankalan, Negros Occidental (the “**Kabankalan BESS**”).

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.

SMC Global Power, through its subsidiaries SMEC, SPDC, SPPC, AHC, SCPC, SMCP, 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.

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 Masinloc and Masinloc BESS	Greenfield Plants	
	Sual	Ilijan	San Roque	Angat		Davao	Limay
Type	Coal	Natural Gas	Hydro	Hydro	Coal and Battery	Coal	Coal
Commercial Operations Date	1999	2002	2003	1967 (112 MW); 1968 (100 MW); 1978 (6 MW)	1998 (660 MW); 2018 (14 MW); 2018 (10 MWh); 2020E (335 MW)	2017 (150 MW); 2018 (150 MW)	2017 (300 MW); 2018 (150 MW); 2019 (150 MW)
Year of Acquisition.....	2009	2010	2010	2014	2018	—	—
Total Installed Capacity (MW) ⁽¹⁾	1,000	1,200	345	218	1,019	300	600
Technology	Pulverized Coal	Combined Cycle	Storage Hydropower	Storage Hydropower	Pulverized Coal ⁽⁶⁾ and Battery Energy Storage System	Circulating Fluidized Bed	Circulating Fluidized Bed
Emission Levels ⁽²⁾							
NOx (ppm).....	182.0	—	—	—	97.3	71.3	76.4
SOx (ppm).....	317.1	—	—	—	117.9	85.8	59.9
PM (Mg/Nm ³).....	13.8	—	—	—	53.7	4.2	10.4
Operator	TeaM Sual Corp.	KEILCO	SRPC	AHC	Mantech	Safetech	Mantech
Offtakers ⁽³⁾	Meralco, ECs, DUs, DCCs, Third-Party RES, WESM	Meralco, WESM	Intercompany ⁽⁴⁾ WESM	WESM	Meralco, DUs, CCs, WESM	ECs, DUs, Industrial customers	DCCs, ECs, DUs, CCs
IPPA Expiry / Asset Transfer Date ⁽⁵⁾	2024	2022	2028	N/A	N/A	N/A	N/A

Notes:

- (1) Includes expected capacity following the expected commencement of commercial operations of Unit 3, Masinloc Power Plant. The 335 MW expected capacity of Unit 3, Masinloc Power Plant together with the 150 MW installed capacity comprising Unit 4, Limay Greenfield Power Plant (which commenced commercial operations in July 2019), are included in the calculation of SMC Global Power's combined installed capacity as of June 30, 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.

SMC Global Power is also engaged in distribution and retail electricity services. In 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. 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, allowed it to enter into contracts with contestable customers and to expand its customer base.

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, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power sold 15,707 GWh, 20,273 GWh, 26,246 GWh, 13,635 GWh and 11,780 GWh of power pursuant to bilateral offtake agreements and 1,520 GWh, 3,590 GWh, 1,979 GWh, 1,000 GWh and 1,057 GWh of power through the WESM, respectively. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, SMC Global Power purchased 684 GWh, 1,144 GWh, 1,973 GWh, 759 GWh and 946 GWh of power from the WESM, respectively.

For the year ended December 31, 2017, 2018 and 2019, the total consolidated revenue, net income and EBITDA of SMC Global Power were ₱82,791 million, ₱8,217 million, ₱7,654 million, ₱120,102.8 million, ₱8,300.1 million and ₱10,716.9 million; and ₱135,060.0 million, ₱14,363.5 million and ₱8,279.3 million, respectively.

For the six months ended June 30, 2019, total consolidated revenue was ₱72,511 million, net income was ₱7,263 million and EBITDA was ₱4,987 million compared to total consolidated revenue of ₱57,176.5 million, net income was ₱9,063.1 million and EBITDA was ₱6,564.1 million for the six months ended June 30, 2020. As of June 30, 2020, SMC Global Power had total consolidated assets of ₱587,112.8 million.

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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
Sales	₱ 82,791	₱ 120,103	₱ 135,060	₱ 72,511	₱ 57,177
Gross profit.....	28,965	39,285	43,302	22,284	20,983
Gross profit margin ⁽¹⁾	35.0%	32.7%	32.1%	30.7%	36.7%
EBITDA ⁽²⁾	7,654	10,717	8,297	4,987	6,564
EBITDA margin ⁽³⁾	9.2%	8.9%	6.1%	6.9%	11.5%
Net income before tax.....	14,396	12,202	21,627	10,947	13,144
Net income before tax margin ⁽⁴⁾	17.4%	10.2%	16.0%	15.1%	23.0%

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

SMC Global Power commenced commercial operations of Unit 4 of the Limay Greenfield Power Plant (150 MW) on July 26, 2019 while Unit 3 of the Masinloc Power Plant (335 MW) is undergoing commissioning and is expected to commence commercial operations in December 2020, upon receipt of its certificate of compliance from the ERC. The expansion of Unit 3 of the Masinloc Power Plant is fully funded and once completed will increase the capacity of the Masinloc Power Plant by approximately 50.0%. Unit 3 of the Masinloc Power Plant is capable of supplying 100.0% of its load and is expected to contribute to SMC Global Power's financials for the year 2021.

SMC Global Power owns 89.54% 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"). SMC Global Power, through its wholly-owned subsidiaries, including Central Luzon Premiere Power Corp. ("CLPPC"), 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 Plant**”). SMC Global Power also intends to further expand the Masinloc Power Plant by constructing an additional unit (Unit 4) having a planned installed capacity of 335 MW and with target completion date in 2024. SMC Global Power continues to participate in CSPs for PSAs with distribution utilities, and negotiate for RSCs with contestable customers for these expansion plans.

SMC Global Power plans to expand its portfolio of BESS projects to about 1,000 MWh, 470 MWh of which is planned to be substantially completed in 2020 and the remaining 530 MWh in 2021. As part of these expansion plans, SMC Global Power has successfully commissioned the Kabankalan BESS (20 MWh). Additionally, Ancillary Service (AS) and Philippine Grid Code (PGC) compliance tests have been completed, and Ancillary Services Procurement Agreement (ASPA) has been offered to NGCP. Further, the Company commenced construction for 12 other sites (310 MWh). Ongoing activities at sites include installation of equipment, excavation and concreting for foundations, and fabrication and installation of rebars and formworks.

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 4,362 MW of combined capacity as of June 30, 2019. Following the commercial operations of Masinloc Power Plant Unit 3 on September 26, 2020, SMC Global Power’s combined capacity will increase to 4,697 MW. 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 ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 19.0% of the National Grid, 25.0% of the Luzon Grid and 8.0% of the Mindanao Grid, as of June 30, 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 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 4 (150 MW) of the Limay Greenfield Power Plant and Unit 3 of the Masinloc Power Plant (335 MW), which is undergoing commissioning and is currently capable of supplying 100.0% of its load. Unit 3 is expected to commence commercial operations in December 2020, upon receipt of its certificate of compliance from the ERC. In addition, SMC Global Power has commenced construction of the Kabankalan BESS (20 MWh) with one of the leading battery EPC contractors worldwide. SMC Global Power also owns 89.54% 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. SMC Global Power plans to expand its power portfolio through the development and construction of a new power plant located in Pagbilao, Quezon and further expansion of the Masinloc Power Plant (Unit 4) by 335 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 95.0%, 91.0%, 94.0%, 93.0% and 95.0% of total revenue for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, respectively. For the six months ended June 30, 2019, approximately 46.0% and 45.0% 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 June 30, 2020, supplying approximately 22.0% 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 June 30, 2020.

More recently, 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, subject to ERC approval.

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 is expected to bid out again the 1,200 MW in the coming months after finalizing its discussions with the DOE on the terms of reference thereof. In addition, Meralco is expected to also bid out the remaining 2,500 MW greenfield requirement within 2020. 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 June 30, 2020, the power portfolio of SMC Global Power consists of (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 23% of SMC Global Power's capacity, the San Roque Power Plant with SPDC as IPPA representing 8% of SMC Global Power's capacity and the Ilijan Power Plant with SPPC as IPPA representing 27% of SMC Global Power's capacity), (ii) the AHEPP, through AHC, which represents 5.0% 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 14.0% of the capacity of SMC Global Power, the Davao Greenfield Power Plant, which represents 7.0% of the capacity of SMC Global Power, and the Masinloc Power Plant (with the Masinloc BESS), which represents another 16% 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 June 30, 2020, SMC Global Power’s coal-fired plants accounted for approximately 59.0% of its capacity. 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 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 fuels 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.

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.

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.

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 either the Sual Power Plant or Ilijan Power Plant, 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.

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, 470 MWh of which is planned to be operational in 2020 and the remaining 530 MWh expected to be substantially completed in 2021. In addition, of the planned 1,000 MWh, 520 MWh is expected to be located in Luzon, 280 MWh in Visayas and 200 MWh in Mindanao. Furthermore, SMC Global Power has entered into agreements for the ownership or lease of 28 sites which are in advanced stages of development and for which the NGCP has issued system impact studies. As part of its plan to expand its portfolio of BESS projects, SMC Global Power has entered into agreements with EPC contractors Fluence, ABB and Wartsila. Notably, Fluence and ABB have agreed to provide their services exclusively to SMC Global Power in the Philippines, while Wartsila has agreed to exclusively act as EPC contractor in selected sites in the Philippines.

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.

SMC Global Power believes that 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. 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.

In addition to supporting the entry of renewable energy, SMC Global Power 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, micro-grid 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. As of the date of this Prospectus, SMC Global Power believes that coal remains the most reliable and cost-efficient fuel source for greenfield power projects and is using and will continue to use clean coal technology for its planned and existing greenfield power plants.

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 construction of the 20 MWh Kabankalan BESS is in advanced stages at 85.56% completion as of June 2020. 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. See “*The Company— Overview — Expansion Projects.*” 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 Albay Power and Energy Corp. (“**APEC**”), which creates 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 gas emissions and operate power plants within and below applicable environmental compliance standards

SMC Global Power intends to continuously supervise, control and improve processes in the power plants it owns and operates to ensure that regulated emissions from operations are within and below applicable environmental compliance standards. Moreover, SMC Global Power has dedicated technical teams to monitor environmental compliance with international standards. See “*The Company— Safety, Health and Environmental Regulation.*”

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, TeM 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**”), which will ensure a steady supply of coal for SMEC. For 2018, PT KPC supplied 11 panamax shipments increased to 15 panamax shipments per year in 2019 and 12 panamax shipments per year from 2020 to 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 six months ended June 30, 2020, PT KPC supplied 6 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 years.

In the years ended December 31, 2017, 2018 and 2019, and the six months ended June, 2019 and 2020, 92.0%, 86.0%, 87.0%, 89.0% and 92.0%, 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, 2017, 2018 and 2019 and the six months ended June 30, 2019 and 2020, 8.0%, 14.0%, 13.0%, 11.0% and 8.0% 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 1,065 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. 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 nine months ended June 30, 2020, 99.0% of revenues were from bilateral contracts while the remaining 1.0% 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.

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 six months ended June 30, 2020, all revenues were from bilateral contracts.

Fuel Supply

SMCPC 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, was scheduled to begin in April 2019. In spite of various delays incurred by the EPC contractor, Unit 3 is undergoing commissioning and is currently capable of supplying 100% of its load. It is expected to commence commercial operations in December 2020, upon receipt of its certificate of compliance from the ERC.

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 June 30, 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 May 2020, SMELC, SCPC and MPPCL supply an equivalent of 776 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 164 contestable customers as of May 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 June 30, 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 six months ended June 30, 2020, approximately 43.0% and 45.0% 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 June 30, 2020, supplying approximately 22.0% 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, 2017, 2018 and 2019 and in the six months ended June 30, 2019 and 2020, approximately 91.0%, 85.0%, 93.0%, 93.0% and 92.0% 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 56.0%, 44.0%, 49.0%, 47.0% and 43.0% of the total consolidated sales volume of SMC Global Power for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020. Sales through the WESM accounted for approximately 9.0%, 15.0%, 7.0%, 7.0% and 8.0% of SMC Global Power's total consolidated sales volume for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2019 and 2020, respectively.

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 19.0% of the National Grid, 25.0% of the Luzon Grid and 8% of the Mindanao Grid, as of June 30, 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,					
	2017		2018		2019	
	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Customers						
Meralco.....	9,664	43,404	10,518	54,474	13,816	62,795
WESM.....	1,520	4,468	3,590	10,860	1,979	8,167
Total Major						
Customers	11,184	47,872	14,108	65,334	15,795	70,962
Others ⁽¹⁾	6,043	34,919	9,756	54,769	12,317	64,098
Total Sales	17,227	82,791	23,864	120,103	28,112	135,060

Note:

(1) Includes Non-Meralco DUs, ECs, Directly Connected Customers, Contestable Customers, Sales to Distribution Customers, and sales to related parties.

For the six months ended June 30

Customers	2019		2020	
	Volume Sold (GWh)	Revenue (in millions ₱)	Volume Sold (GWh)	Revenue (in millions ₱)
Meralco.....	7,218	34,328	5,944	24,624
WESM.....	1,000	4,919	1,057	2,803
Total Major Customers.....	8,218	39,247	7,001	27,427
Others ⁽¹⁾	6,416	33,264	5,836	29,750
Total Sales.....	14,634	72,511	12,837	57,177

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_x**”), sulfur dioxide (“**SO₂**”) 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 six months ended June 30, 2020:

Power Plant	NO _x		SO _x		PM	
	Emission level	DENR Standard	Emission level	DENR Standard	Emission level	DENR Standard
	(ppm)		(ppm)		(Mg/Nm ³)	
Sual Power Plant*.....	182.0	732.0	317.1	524.0	13.8	200.0
Masinloc Power Plant.....	97.3	732.0	117.9	524.0	53.7	200.0
Limay Greenfield Power Plant.....	76.4	487.0	59.9	245.0	10.4	150.0
Davao Greenfield Power Plant.....	71.3	487.0	85.8	245.0	9.3	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 respective communities.

In addition, SMC Global Power is in the process of completing its first sustainability report using the Global Reporting Initiative as a framework, which it aims to publish by the first quarter of 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:

Concession	% SMC Effective Ownership Interest	Expected Project Cost (in millions)	Concession Length
TPLEX.....	70.11% ⁽¹⁾	₱29,843	35 years
Boracay Airport.....	99.80% ⁽²⁾	₱13,782	25 years
MRT-7	100.00% ⁽³⁾	₱84,700 ⁽³⁾	25 years
SLEX Toll Road (TR) 1, 2, & 3	76.00% ⁽⁴⁾	Completed	25 years
SLEX TR4 ..	76.00% ⁽⁴⁾	₱26,100 ⁽⁴⁾	25 years
Skyway Stage 1 & 2.....	83.45% ⁽⁵⁾	Completed	25 years
Skyway Stage 3.....	85.50% ⁽⁶⁾	₱76,014	30 years
Skyway Stage 4.....	77.93% ⁽⁷⁾	₱49,880	30 years
NAIAx	100.00%	Completed	30 years
Star Tollway	100.00% ⁽⁸⁾	Completed	30 years
Manila North Harbor.....	50.00% ⁽⁹⁾	₱14,894	30 years
Bulacan Bulk Water Supply Stage 1 & 2 .	90.00% ⁽¹⁰⁾	Completed	30 years
New Manila International Airport.....	100.00% ⁽¹¹⁾	₱735,634	50 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 US\$1.540Billion.
- (4) Ownership through SMHC equity interest: 95% SMHC to AAIBV, 100% AAIBV to MTDME and 80% MTDME to SLTC. 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 AAIPC and 87.84% AAIPC to CMMTC. 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 CCEC.
- (7) Ownership through SMHC equity interest: 100% SMHC to SMCI, 77.93% SMCI to CITI.
- (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

For each of the years ended December 31, 2017, 2018 and 2019, the infrastructure business had revenues of ₱22,497 million, ₱24,530 million and ₱23,406 million; gross profit of ₱13,700 million, ₱14,893 million and ₱14,730 million, and net income of ₱4,208 million, ₱6,162 million, ₱6,038 million, respectively.

For the six-month period ended June 30, 2019, the infrastructure business had revenues of ₱12,315 million gross profit of ₱7,787 million and net income of ₱3,396 million compared to sales of ₱6,675 million, gross profit of ₱2,844 million and net loss of ₱1,026 million for the six-month period ended June 30, 2020.

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

	For the years ended December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
	(in millions, except percentages)				
Sales	₱22,497	₱24,530	₱ 23,406	₱ 12,315	₱ 6,675
Gross profit.....	13,700	14,893	14,730	7,787	2,844
Gross profit margin ⁽¹⁾	61.0%	61.0%	63.0%	63.0%	43.0%
EBITDA ⁽²⁾	15,857	17,423	17,177	8,757	3,767
EBITDA margin ⁽³⁾	71.0%	71.0%	73.0%	71.0%	56.0%
Net income before tax	6,401	8,899	8,597	4,726	(484)
Net income before tax margin ⁽⁴⁾ ...	29.0%	36.0%	37.0%	38.0%	(7.0%)

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, STAR tollway, TPLEX and NAIAX, serving as the main thoroughfares for motorists. For example, according to the National Statistics and Coordination Board data, in 2017, the gross regional domestic product of the Southern Luzon Region is 4.8% which accounts for 16.8% 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 Stages 3 and 4, SLEX TR4, MRT-7, and the New Manila International Airport, which are projected to further support the growth in the areas they will serve.

SMHC believes that it has benefited from the economic growth of the Philippines, as evidenced in the increasing traffic volume as set forth in the table below for the periods indicated.

	For the years ended December 31,			For the six months ended June 30,
	2017	2018	2019	2020
	Annual Average Daily Traffic ("AADT") ⁽¹⁾			
SLEX TR 1, 2 & 3	337,164	355,516	366,189	235,096
Skyway Stages 1 & 2	256,469	251,361	257,052	149,823
STAR	51,490	57,472	62,453	42,730
TPLEX ⁽²⁾	18,836	22,272	24,370	15,127
NAIAX	64,288	97,561	112,708	51,564

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) Partial operations - Sections 1, 2 and 3A. 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 and the six months ended June 30, 2020. The remaining section (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 Toll Regulatory Board (“**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 New 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 and 2, NAIAX, SLEX, STAR, Subic-Clark-Tarlac Expressway (“**SCTEX**”), North Luzon Expressway (“**NLEX**”), Manila-Cavite Expressway (“**CAVITEX**”) and Muntinlupa Cavite Expressway (“**MCX**”). Out of these nine operating toll facilities in the country, five are owned and controlled by SMHC namely Skyway Stages 1 and 2, SLEX, STAR tollways, TPLEX and NAIAX. Several projects are still under construction while some are still in the design and planning stage. SMC believes that it has rights to approximately 55.45% of the total road length of awarded toll road projects in the country, as set out below.

TOLL ROAD PROJECT	Length (km)	Status
SMC		
TPLEX	89.21	Section 1, 2 & 3A Operational. Section 3B Ongoing construction
Skyway (Stage 1 and 2)	29.59	Operational
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	Ongoing construction
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
TOTAL SMC.....	343.70	56.24%
Others		
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
Muntinlupa Cavite Expressway (MCX)	4.00	Operational
NLEX-SLEX Connector Road	8.00	Awarded by DPWH
Cebu-Cordova Link Expressway (CCLEX)	8.00	Awarded by City of Cebu and Municipality of Cordova
Harbor Link Segment 10	5.70	On-going construction
TOTAL OTHERS.....	267.69	43.80%
GRAND TOTAL.....	611.39	100%

Tarlac-Pangasinan-La Union Expressway (“TPLEX”)

In August 2009, SMC made its first infrastructure investment by acquiring a 35% (currently 70.11%) stake in PIDC. PIDC 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.

Currently, construction from Talugtug to Pozorrubio is already completed, while the last leg from Pozorrubio to Rosario opened on July 15, 2020. Construction of Bued Viaduct has already been completed.

South Luzon Expressway (SLEX)

SLTC 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, 2019, the AADT of SLEX was around 366,189 vehicles. As of June 30, 2020, SLEX registered a 35.80% decline in vehicular traffic, which is approximately 235,096 per day.

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.

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, Citra Metro Manila Tollways Corporation (“**CMMTC**”) 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.

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. The ₱10,000 million project is scheduled to be completed by December 2020 for northbound, and June 2021 for southbound.

As of June 30, 2020, AAIPC, a 95% owned subsidiary of SMC, has an ownership interest of 87.84% in CMMTC.

Skyway Stage 3

Skyway Stage 3 is a 17.93 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 are expected to begin by the fourth quarter of 2020.

On November 16, 2012, Citra Central Expressway Corp. (“CCEC”) 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 CCEC.

As of June 30, 2020, Stage 3 Connector Tollways Holdings Corp. (“S3HC”), a 100% owned subsidiary of SMC, has an ownership interest of 90% in CCEC.

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, Citra Intercity Tollways, Inc. (“CITI”) 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 CITI.

As of June 30, 2020, SMC Infraventures Inc. (“SMCI”), a 100% owned subsidiary of SMC, has an ownership interest of 77.93% in CITI.

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 June 30, 2020, the AADT in STAR Tollway is 42,730 vehicles, representing a 31.58% 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

Vertex Tollways Devt Inc. (“**VTDI**”), 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 VTDI as the concessionaire of the said project. The concession agreement between DPWH and VTDI 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 June 30, 2020, the AADT is at 51,564 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 June 30, 2020, SMHC owns 99.80% 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.

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.

New Manila International Airport

SMHC was granted the Original Proponent Status (OPS) by the DOTr for the construction of the New 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.

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 June 30, 2020, construction from North Avenue to Quirino Highway is on-going with civil works and equipment and mechanical systems at 98.05% and 78.61% completion, respectively.

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-tyred 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 June 30, 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 4, (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.

OTHERS

Properties Business

Established in 1990 as the corporate real estate arm of SMC, SMPI aims to be one of the major players in the property sector through mixed-use developments. SMPI is 99.95% 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.

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 square meters. In Silang Cavite, SMPI's development, Wedge Woods, offers prime lots on a rolling terrain.

In Metro Manila, 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 in Metro Manila, serving the high-end market with its foray into townhouse developments, such as Dover Hill in San Juan, One Dover View and Two Dover View in Mandaluyong, and Emerald 88 in Pasig.

In addition, SMPI operates Makati Diamond Residences, a luxury serviced apartment across Greenbelt 5 in Legaspi Village, Makati City.

Banking

SMC, through SMPI, made a series of acquisitions of BOC shares in 2007 and 2008 representing 39.93% ownership interest and additional acquisition of BOC shares in December 2018, through SMC Equivest Corporation, representing 4.69% ownership interest. BOC is a commercial bank licensed to engage in banking operations in the Philippines.

DESCRIPTION OF PROPERTY

The general asset description and locations of the various plants and farms owned and leased by the SMC Group are included as Appendix “C” of this Prospectus.

The properties included in Appendix “C” of this Prospectus that are owned by the SMC Group are free of liens and encumbrances.

The properties in Appendix “C” 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

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 Offer Shares 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 98 of this Prospectus and notes 24 and 44 of the audited financial statements of the Company for the period ended December 31, 2019.

OWNERSHIP AND CAPITALIZATION

Share Capital

As of August 31, 2020, the Company had the following outstanding capital stock:

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding as of August 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	89,333,400	
Series "2-E" Preferred Shares	134,000,100	
Series "2-F" Preferred Shares	223,333,500	
Series "2-G" Preferred Shares	66,666,600	
Series "2-H" Preferred Shares	164,000,000	
Series "2-I" Preferred Shares	<u>169,333,400</u>	
SUB-TOTAL (Preferred Shares)		<u>1,102,226,400</u>
TOTAL Outstanding Shares		3,486,122,988

List of Top 20 Stockholders

The top 20 common and preferred stockholders of the Company as of August 31, 2020 are as follows:

	Stockholder Name	Common	Preferred S2	Total Shares	% to Total Outstanding Capital Stock
1.	Top Frontier Investment Holdings, Inc.	1,573,100,340	0	1,573,100,340	45.12%
2.	PCD Nominee Corporation (Filipino)	210,971,522	986,147,300	1,197,118,822	34.34%
3.	Privado Holdings, Corp.	368,140,516	0	368,140,516	10.56%
4.	PCD Nominee Corporation (Non-Filipino)	43,226,032	8,021,060	51,247,092	1.47%
5.	PCGG in Trust for the Comprehensive Agrarian Reform Program	27,636,339	0	27,636,339	0.79%
6.	San Miguel Brewery Inc. Retirement Plan	0	18,153,700	18,153,700	0.52%
7.	G & E Shareholdings Inc.	0	15,000,000	15,000,000	0.43%
8.	Petron Corporation Employees' Retirement Plan	12,237,100	0	12,237,100	0.35%
9.	Millennium Energy, Inc.	10,807,380	0	10,807,380	0.31%
10.	San Miguel Corporation Retirement Plan FIP	0	9,346,900	9,346,900	0.27%
11.	Social Security System	0	7,328,500	7,328,500	0.21%
12.	Sysmart Corporation	4,614,820	0	4,614,820	0.13%
13.	Eduardo M. Cojuangco, Jr.	3,828,702	0	3,828,702	0.11%
14.	Pryce Corporation	0	3,541,760	3,541,760	0.10%
15.	Gingoog Holdings Corporation	1,830,082	1,590,000	3,420,082	0.10%
16.	San Miguel Corporation	0	3,166,500	3,166,500	0.09%

	Retirement Plan STP				
17.	Pryce Gases, Inc.	0	2,832,070	2,832,070	0.08%
18.	GSIS Provident Fund	0	2,666,700	2,666,700	0.08%
19.	Knights of Columbus Fraternal Association of the Phils., Inc.	0	2,660,600	2,660,600	0.08%
20.	Marine Shore Investment Holdings, Inc.	2,089,660	0	2,089,660	0.06%
	TOTAL	2,258,482,493	1,060,455,090	3,318,937,583	95.20%

Security Ownership of Directors and Officers

The owners of more than 5% of the Company's voting² securities (both common and preferred shares) as of August 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. ³ 5th Floor, ENZO Bldg., 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% ⁴ of the outstanding common stock of Top Frontier Investment Holdings, Inc., respectively.	Filipino	1,573,100,340	45.12%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	210,971,522	34.34%
Series "2" Preferred Shares	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	986,147,300	
Common	Privado Holdings, Corp. 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 ⁵	10.72%

² 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 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.

³ The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of August 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.

⁴ As of August 31, 2020, through Privado Holdings, Corp. and Master Year Limited, both stockholders of record of Top Frontier Investment Holdings, Inc.

⁵ 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 Chief Executive Officer, the directors, and key officers of the Company, as of August 31, 2020:

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) 368,140,516 (I) ⁶ 5,483,280 (I) ⁷ 235,335,811 (I) 174,142,208 (I) 314,620 (I)		Filipino	784,761,864 (22.51%)
Leo S. Alvez	19,326 (D)		Filipino	19,326 (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%)
Reynaldo G. David	5,000 (D)		Filipino	5,000 (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)	400,000 (I)	Filipino	405,000 (0.01%)
Margarito B. Teves	5,000 (D)		Filipino	5,000 (0.00%)
Ramon F. Villavicencio	35,000(D) 9,000 (I)			44,000 (0.00%)
Iñigo U. Zobel	16,171 (D) 943,230,964 (I) ⁸		Filipino	943,247,135 (27.06%)
Ferdinand K. Constantino	477,692 (D)	200,000 (D)	Filipino	677,692 (0.02%)
Virgilio S. Jacinto	180,830 (D)		Filipino	180,830 (0.01%)
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 August 31, 2020 is 1,729,517,345 or approximately 49.61% 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.

⁶ Through his 100% shareholdings in Privado Holdings, Corp.

⁷ Through his 100% shareholdings in Privado Holdings, Corp. which has shares which are lodged with the PDTC.

⁸ 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 high and low closing prices for each quarter from 2017 to 2019 and for the first two quarters of 2020 are as follows.

2017

	Common		Series “1”		Series “2-B”		Series “2-C”		Series “2-D”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	108.00	92.30	-	-	78.30	76.00	83.50	79.70	78.50	75.50
2nd	111.20	101.50	-	-	78.00	76.00	83.00	80.00	78.00	76.00
3rd	104.00	96.60	-	-	77.00	74.00	82.00	79.40	77.75	75.85
4th	124.50	97.10	-	-	78.05	74.50	82.95	80.00	78.50	75.10

	Series “2-E”		Series “2-F”		Series “2-G”		Series “2-H”		Series “2-I”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.10	76.40	81.10	78.10	79.50	77.00	79.50	76.60	80.00	77.20
2nd	81.60	77.00	81.30	79.00	79.50	77.00	79.00	77.50	79.50	77.60
3rd	80.00	76.55	82.00	80.00	79.95	78.00	79.70	77.30	80.90	76.55
4th	80.00	76.25	82.70	79.50	79.95	76.50	79.50	76.15	81.70	77.25

2018

	Common		Series “1”		Series “2-B”		Series “2-C”		Series “2-D”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	152.00	111.60	-	-	77.50	75.00	81.50	75.00	77.00	74.50
2nd	145.40	134.00	-	-	78.00	75.20	79.95	77.00	76.90	74.90
3rd	180.10	134.00	-	-	91.00	75.00	80.90	77.50	76.00	72.00
4th	175.40	139.00	-	-	76.45	75.00	78.10	75.75	75.40	70.00

	Series “2-E”		Series “2-F”		Series “2-G”		Series “2-H”		Series “2-I”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	79.00	75.00	81.50	77.30	78.50	75.00	79.60	75.00	79.80	76.80
2nd	76.95	75.05	79.50	76.00	76.80	75.00	78.00	75.00	78.90	75.10
3rd	77.00	73.35	77.50	74.50	76.50	74.60	77.50	72.50	77.00	74.50
4th	75.45	71.95	75.35	70.05	75.20	70.30	75.00	71.85	75.00	70.05

2019

	Common		Series “1”		Series “2-B”		Series “2-C”		Series “2-D”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	180.00	144.80	-	-	75.90	74.00	77.40	75.00	74.45	71.40
2nd	195.90	171.90	-	-	75.95	73.15	78.00	75.20	73.85	71.05
3rd	183.70	170.10	-	-	77.50	74.50	79.00	76.00	76.45	72.50
4th	174.00	150.00	-	-	-	-	78.95	75.05	76.00	74.70

	Series “2-E”		Series “2-F”		Series “2-G”		Series “2-H”		Series “2-I”	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	75.00	71.30	76.80	72.00	74.90	71.20	74.50	71.00	75.00	71.05
2nd	74.25	71.50	75.00	73.00	74.50	72.50	74.00	70.00	74.95	40.80
3rd	76.50	72.00	78.00	73.75	77.00	73.25	79.95	70.50	77.00	72.95
4th	77.00	74.00	77.75	75.35	78.00	75.05	76.95	74.00	77.00	75.00

	Common		Series "1"		Series "2-C"		Series "2-D"	
	High	Low	High	Low	High	Low	High	Low
1st	165.00	72.50	-	-	78.95	74.80	76.05	73.00
2nd	110.00	90.80	-	-	78.95	75.50	76.15	73.40

	Series "2-E"		Series "2-F"		Series "2-G"		Series "2-H"		Series "2-I"	
	High	Low	High	Low	High	Low	High	Low	High	Low
1st	76.50	73.00	78.00	74.00	76.40	73.00	76.50	74.00	77.00	73.50
2nd	76.35	73.05	80.00	74.50	77.00	73.75	77.00	73.80	78.90	73.50

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 2019.

Cash dividends declared by the Board of Directors of SMC and paid to Series "1" preferred shareholders amounted to ₱4.22625 per share in 2019.

Cash dividends declared by the Board of Directors of SMC and paid to all Series "2" – Subseries "2-B" Subseries "2-C", Subseries "2-D", Subseries "2-E", Subseries "2-F", Subseries "2-G", Subseries "2-H" and Subseries "2-I" preferred shareholders amounted to ₱5.71875, ₱6.00, ₱4.457325, ₱4.744125, ₱5.1054, ₱4.934475, ₱4.74165 and ₱4.751625 per share, respectively, in 2019.

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 2017.

Common Shares

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	0.35	March 16	April 7	May 4
	Cash	0.35	June 13	June 30	July 25
	Cash	0.35	September 14	October 9	November 6
	Cash	0.35	December 7	January 2, 2018	January 24, 2018
Total:		1.40			
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
Total:		0.70			

Preferred Shares - Series 1

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017.....	Cash	1.0565625	January 12	March 21	April 5
	Cash	1.0565625	May 10	June 21	July 6
	Cash	1.0565625	August 9	September 21	October 6
	Cash	1.0565625	November 10	December 21	January 5, 2018
Total:		4.22625			
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
2017	Cash	1.4296875	January 12	March 21	April 5
	Cash	1.4296875	May 10	June 21	July 6
	Cash	1.4296875	August 10	September 21	October 6
	Cash	1.4296875	November 10	December 21	January 5, 2018
Total:		5.71875			
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
2017	Cash	1.50	January 12	March 21	April 5
	Cash	1.50	May 10	June 21	July 6
	Cash	1.50	August 10	September 21	October 6
	Cash	1.50	November 10	December 21	January 5, 2018
Total:		6.00			—
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
Total:		3.00			

Preferred Shares - Series 2D

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.11433125	January 12	March 21	April 5
	Cash	1.11433125	May 10	June 21	July 6
	Cash	1.11433125	August 10	September 21	October 6
	Cash	1.11433125	November 10	December 21	January 5, 2018
Total:	—	4.457325	—	—	—
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
Total:		2.2286625			

Preferred Shares - Series 2E

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.18603125	January 12	March 21	April 5
	Cash	1.18603125	May 10	June 21	July 6
	Cash	1.18603125	August 10	September 21	October 6
	Cash	1.18603125	November 10	December 21	January 5, 2018
Total:	—	4.744125	—	—	—
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
Total:		2.3720625			

Preferred Shares - Series 2F

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.27635	January 12	March 21	April 5
	Cash	1.27635	May 10	June 21	July 6
	Cash	1.27635	August 10	September 21	October 6
	Cash	1.27635	November 10	December 21	January 5, 2018
Total:		5.1054			

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
Total:		2.5527			

Preferred Shares - Series 2G

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.23361875	January 12	March 21	April 5
	Cash	1.23361875	May 10	June 21	July 6
	Cash	1.23361875	August 10	September 21	October 6
	Cash	1.23361875	November 10	December 21	January 5, 2018
Total:	--	4.934475	--	--	--
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
Total:		2.4672375			

Preferred Shares - Series 2H

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.1854125	January 12	March 21	April 5
	Cash	1.1854125	May 10	June 21	July 6
	Cash	1.1854125	August 10	September 21	October 6
	Cash	1.1854125	November 10	December 21	January 5, 2018
Total:	—	4.74165	—	—	—
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
Total:		2.370825			

Preferred Shares - Series 2I

Year	Type	Per Share Amount (₱)	Date Declared	Record Date	Payment Date
2017	Cash	1.18790625	January 12	March 21	April 5
	Cash	1.18790625	May 10	June 21	July 6
	Cash	1.18790625	August 10	September 21	October 6
	Cash	1.18790625	November 10	December 21	January 5, 2018
Total:		4.751625			
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
Total:		2.3758125			

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, its 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 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 ⁹	BDO Capital and Investment Corporation	May 25, 2018	₱10,000,000,000.00	Section 10.1 (l) of the SRC
	BPI Capital Corporation			
U.S.\$3,000,000,000 Medium Term Note Programme	BofA Securities DBS Bank Ltd. Standard Chartered Bank	July 29, 2020	U.S.\$500,000,000.00	Section 10.1 (l) of the SRC
Redeemable Perpetual Securities – Peso and U.S. Dollar	N/A	Various dates	₱14,810,000,000.00 U.S.\$100,000,000.00	Section 10.1 (k) of 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.

Effect on Common Equity Holders

The Offer Shares will not have any dilutive effect on the rights of the holders of the common shares of SMC, as these are non-voting, non-convertible and non-participating.

Foreign Equity Holders

As of July 31, 2020, the percentage of the total outstanding capital stock of SMC held by foreigners is 1.82%.

Class of Shares	Foreign Shares	% of Foreign Owned
Common Shares	55,018,579	2.31%
Series “2-C” Preferred Shares	1,400,020	0.55%
Series “2-D” Preferred Shares	447,930	0.50%
Series “2-E” Preferred Shares	809,112	0.60%
Series “2-F” Preferred Shares	1,833,782	0.82%
Series “2-G” Preferred Shares	466,945	0.70%
Series “2-H” Preferred Shares	1,355,964	0.83%
Series “2-I” Preferred Shares	2,109,470	1.25%
TOTAL	63,441,802	1.82%

⁹ Redeemed on May 25, 2020.

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, four of whom are independent directors. The table below sets forth certain information regarding the members of the Board:

Name	Age	Citizenship	Position
Ramon S. Ang	66	Filipino	Vice Chairman
Estelito P. Mendoza	90	Filipino	Director
Leo S. Alvez.....	77	Filipino	Director
Aurora T. Calderon	66	Filipino	Director
Joselito D. Campos, Jr.....	69	Filipino	Director
Menardo R. Jimenez.....	87	Filipino	Director
Alexander J. Poblador	66	Filipino	Director
Thomas A. Tan.....	66	Filipino	Director
Iñigo U. Zobel	63	Filipino	Director
Jose De Venecia, Jr.	83	Filipino	Director
Ramon F. Villavicencio	79	Filipino	Director
Reynaldo G. David.....	77	Filipino	Independent Director
Teresita J. Leonardo-de Castro.....	71	Filipino	Independent Director
Reynato S. Puno	80	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.

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.

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.

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., 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.

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.

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. His other positions include: Chairman of Majent Management and Development Corporation; Chairman of Coffee Bean and Tea Leaf Holdings, Inc., and Meedson Properties Corporation, among others. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

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 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, and President of Saturn Cement Corporation and Sakamoto 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.

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 Zygnnet 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.

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.

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.

Reynaldo G. David has served as an Independent Director of the Company since June 14, 2016. He is the Chairman of the Related Party Transactions Committee and a Member of the Audit and Risk Oversight Committee and Corporate Governance Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, and Tiger Resort, Leisure & Entertainment, Inc. He has previously held among others, the following positions: President and Chief Executive Officer of the Development Bank of the Philippines; Chairman of NDC Maritime Leasing Corporation; and Director of DBP Data Center, Inc. and Al-Amanah Islamic Bank of the Philippines. A certified public accountant since 1964, he graduated from the De La Salle University with a combined Bachelor of Arts and Bachelor of Science in Commerce degrees in 1963 and attended the Advanced Management Program of the University of Hawaii (1974). He was conferred with the title Doctor of Laws, honoris causa, by the Palawan State University in 2005 and the title Doctor of Humanities, honoris causa, by the West Visayas State University in 2009.

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. 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, 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. 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.

Name	Age	Citizenship	Position
Ramon S. Ang	66	Filipino	President and Chief Operating Officer
Ferdinand K. Constantino....	68	Filipino	Chief Finance Officer and Treasurer
Virgilio S. Jacinto.....	63	Filipino	Senior Vice President, General Counsel, Corporate Secretary and Compliance Officer
Aurora T. Calderon.....	66	Filipino	Senior Executive Assistant to the Office of the President and Chief Operating Officer
Joseph N. Pineda	57	Filipino	Senior Vice President and Deputy Chief Finance
Sergio G. Edeza.....	62	Filipino	Senior Vice President and Head of Treasury
Lorenzo G. Formoso III.....	58	Filipino	Senior Vice President and Head of SMC 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., 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. 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 five 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 (v) 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 five 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. Reynaldo G. David (Independent), 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).

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 five members. The members of the committee are Mr. Margarito B. Teves (Independent), Mr. Joselito D. Campos, Jr., Mr. Alexander J. Poblador, Reynato S. Puno (Independent). The chairperson of the Related Party Transactions Committee is Mr. Reynaldo G. David (Independent).

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 five directors of the Company, four 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), Mr. Reynaldo G. David (Independent), Menardo R. Jimenez, and Ms. Aurora T. Calderon.

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, believe 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.

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 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, Corporate Governance Committee, and 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 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/l/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

There are no 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 ¹⁰	2020 (estimated)	₱225.7 Million	₱186.4 Million	₱26.4 Million	₱438.5 Million
	2019	₱222.6 Million	₱141.1 Million	₱48.6 Million	₱412.3 Million
	2018	₱208.7 Million	₱213.3 Million	₱46.1 Million	₱468.1 Million
All other officers and directors as a group unnamed	2020 (estimated)	₱259.0 Million	₱92.0 Million	₱63.5 Million	₱414.5 Million
	2019	₱258.5 Million	₱92.6 Million	₱63.2 Million	₱414.3 Million
	2018	₱233.9 Million	₱115.6 Million	₱59.1 Million	₱408.6 Million

¹⁰ The Chief Executive Officer and Senior Executive Officers of the Company for 2020, 2019, and 2018 are as follows: Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Virgilio S. Jacinto.

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
TOTAL	2020 (estimated)	₱484.7 Million	₱278.4 Million	₱89.9 Million	₱853.0 Million
	2019	₱481.1 Million	₱233.7 Million	₱111.8 Million	₱826.6 Million
	2018	₱442.6 Million	₱328.9 Million	₱105.2 Million	₱876.7 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 2019, the members of the Board of Directors and officers of the Company were paid an aggregate amount of ₱826.6million.

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 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 5.777 million shares and to 742 executives consisting of 7.46 million shares, respectively.

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.

The following are the outstanding, exercised and cancelled options as of the relevant year:

	2017	2018	2019
Outstanding (at beginning of year)	4,028,305	1,782,790	0
Exercised	2,057,465	1,630,873	0
Cancelled (Expired)	188,050	151,917	0
Outstanding (at end of year)	1,782,790	0	0

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 warrants or options on the Offer Shares held by Directors or Officers.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

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, 2019 and note 8 of the unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2020 for more detailed information.

Receivables from related parties totalled ₱19,182 million as of December 31, 2019 and ₱18,200 million as of June 30, 2020.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

The summary historical consolidated statement of financial position data as of December 31, 2017, December 31, 2018 and December 31, 2019, and summary historical consolidated statement of income and cash flow data for the years ended December 31, 2017, December 31, 2018 and December 31, 2019 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 summary historical consolidated statement of financial position data as of June 30, 2020 and summary historical consolidated statement of income and cash flow data for the nine months ended June 30, 2019 and June 30, 2020, respectively set forth below, have been derived from, and should be read in conjunction with, the unaudited interim condensed 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, 2017, 2018 and 2019 were audited by R.G. Manabat & Co. The condensed consolidated interim financial statements of SMC as of June 30, 2020 and for the nine months ended June 30, 2019 and 2020 were reviewed 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 December 31,			For the six months ended June 30,	
	2017	2018	2019	2019	2020
		(Audited)	(in millions)	(Unaudited)	
	₱	₱	₱	₱	₱
Sales.....	826,086	1,024,943	1,020,502	509,495	352,796
Cost of sales.....	644,221	825,748	818,815	408,618	299,682
Gross Profit.....	181,865	199,195	201,687	100,877	53,114
Selling and Administrative expenses	(70,823)	(82,110)	(85,972)	(43,261)	(38,186)
Interest expense and other financing charges.....	(35,714)	(45,496)	(56,019)	(28,166)	(26,571)
Interest income.....	4,525	7,192	10,675	5,576	3,794
Equity in net earnings (losses) of associates and joint ventures.....	297	(289)	105	171	(54)
Gain (loss) on sale of investments and property and equipment	879	252	(237)	65	(404)
Other income (charges) – net.....	154	(5,628)	6,848	3,531	6,309
Income (Loss) before income tax.....	81,183	73,116	77,087	38,793	(1,988)
Income tax expense.....	26,369	24,468	28,513	12,641	1,990
Net income (Loss).....	54,814	48,648	48,574	26,152	(3,988)
Attributable to:					
Equity holders of SMC	28,225	23,077	21,329	13,232	(7,593)
Non-controlling interests	26,589	25,571	27,245	12,920	3,605
	54,814	48,648	48,574	26,152	(3,988)
Earnings (loss) per common share attributable to equity holders of SMC					
Basic and Diluted.....	9.00	7.00	6.00	4.02	(4.50)

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	₱
ASSETS				
Current Assets				
Cash and cash equivalents	206,073	243,150	286,457	344,423
Trade and other receivables — net	116,040	129,893	136,488	124,560
Inventories	102,575	118,946	127,463	93,512
Current portion of biological assets — net	3,422	4,245	4,151	3,449
Prepaid expenses and other current assets	78,228	92,043	86,585	92,349
	506,338	588,277	641,144	658,293
Assets held for sale	—	—	—	—
Total Current Assets	506,338	588,277	641,144	658,293
Noncurrent Assets				
Investments and advances — net	35,537	50,519	52,861	52,956
Investment in equity and debt instruments	42,069	42,126	42,055	41,787
Property, plant and equipment — net	523,586	594,372	463,614	480,605
Rights-of-use assets — net	—	—	173,604	171,159
Investment property — net	7,162	31,829	51,779	52,707
Biological assets — net of current portion	2,695	2,844	2,808	2,833
Goodwill — net	60,124	130,852	130,073	129,498
Other intangible assets — net	134,438	146,608	149,014	154,766
Deferred tax assets	18,412	19,249	18,052	18,341
Other noncurrent assets — net	49,282	69,966	92,730	89,104
Total Noncurrent Assets	873,305	1,088,365	1,176,590	1,193,756
Total assets	1,379,643	1,676,642	1,817,734	1,852,049
LIABILITIES AND EQUITY				
Current Liabilities				
Loans payable	149,863	184,024	169,492	165,356
Accounts payable and accrued expenses	136,993	149,764	176,037	142,176
Finance lease liabilities — current portion	16,889	19,699	24,979	25,492
Income and other taxes payable	16,653	19,901	21,185	22,022
Dividends payable	4,429	4,042	4,116	3,936
Current maturities of long-term debt — net of debt issue costs	36,944	55,697	43,808	54,964
Total Current Liabilities	361,771	433,127	439,617	413,946
Noncurrent Liabilities				
Long-term debt — net of current maturities and debt issue costs	362,548	561,918	638,996	732,822
Deferred tax liabilities	20,674	22,899	25,265	21,839
Finance lease liabilities — net of current portion	138,008	122,367	117,269	104,686
Other noncurrent liabilities — net of current portion	25,580	24,384	22,192	23,972
Total Noncurrent Liabilities	546,810	731,568	803,722	883,319
Total Liabilities	908,581	1,164,695	1,243,339	1,297,265
Equity				
Equity Attributable to Equity Holders of SMC				
Capital stock — common	16,435	16,443	16,443	16,443
Capital stock — preferred	10,187	10,187	10,187	10,187
Additional paid-in capital	177,750	177,938	177,938	177,938
Redeemable Perpetual Securities	—	—	—	10,702
Equity reserves	(4,799)	21,513	14,390	10,961
Retained earnings:				
Appropriated	66,890	72,820	56,689	56,216
Unappropriated	143,335	148,345	173,092	160,883
Treasury stock	(109,501)	(109,501)	(116,283)	(137,239)

	As of December 31,			As of June 30,
	2017	2018	2019	2020
	(Audited)			(Unaudited)
	(in millions)			
	₱	₱	₱	₱
Total Equity Attributable to Equity Holders of				
SMC	300,297	337,745	332,456	306,091
Non-controlling interest.....	170,765	174,202	241,939	248,693
Total Equity	471,062	511,947	574,395	554,784
	<u>1,379,643</u>	<u>1,676,642</u>	<u>1,817,734</u>	<u>1,852,049</u>

Consolidated Statement of Cash Flows Data

	For the years ended			For the six months	
	December 31,			ended June 30,	
	2017	2018	2019	2019	2020
	(Audited)			(Unaudited)	
	(in millions)				
	₱	₱	₱	₱	₱
Net cash provided by (used in):					
Operating activities	79,736	59,772	92,195	47,923	13,500
Investing activities	(54,132)	(196,313)	(112,040)	(47,312)	(35,265)
Financing activities	(22,386)	174,015	66,756	26,768	84,121
Effect of exchange rates changes in cash and cash equivalents	(298)	(397)	(3,604)	(3,104)	(4,390)
Net increase in cash and cash equivalents.....	2,920	37,077	43,307	24,275	57,966
Cash and cash equivalents at beginning of period	203,153	206,073	243,150	243,150	286,457
Cash and cash equivalents at end of period.....	<u>206,073</u>	<u>243,150</u>	<u>286,457</u>	<u>267,425</u>	<u>344,423</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of SMC Group as at and for the period ended June 30, 2020 (with comparative figures as at December 31, 2019 and for the period ended June 30, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at June 30, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with PFRS have been omitted.

I. 2020 SIGNIFICANT TRANSACTIONS

MERGER OF SMYPC AND SMYAC

On October 23, 2019 and December 20, 2019, respectively, the Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC will be transferred to and absorbed by SMYPC, the surviving entity.

On February 24, 2020, the SEC approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger.

On the same date, the SEC approved the increase in the authorized capital stock of SMYPC which was filed on October 25, 2019.

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 ₱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 Bureau of Internal Revenue and is still pending as at August 6, 2020.

AVAILMENT OF LONG-TERM DEBT

- SMC

On March 19, 2020, SMC drew the remaining U.S.\$1,950 million from the term loan facility amounting to US\$2,000 million for general corporate purposes. The term of the loan is for five years and is subject to a floating interest rate. The maturity date of the loan is on September 27, 2024.

- Masinloc Power Partners Co. Ltd. (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 megawatts (Unit 3 of Masinloc Power Plant) coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche and floating interest tranche with maturities up to December 2030.

- AAIPC

In March and June 2020, AAIPC availed a total of ₱4,500 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

for the construction of North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3) Project. The loan is payable in 40 quarterly installments up to December 14, 2029 and subject to fixed interest rate.

- Petron

- a) 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 the July and December amortizations of the U.S.\$1,000 million term loan facility.
- b) On April 27, 2020, Petron availed of ₱5,000 million term loan which will be amortized quarterly for four 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 to finance working capital and other general corporate requirements.

- San Miguel Foods

On various dates in April and May 2020, San Miguel Foods 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 within two years. 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.

ISSUANCE OF ₱15,000 MILLION FIXED-RATE PESO-DENOMINATED BONDS AND REDEMPTION OF PERPETUAL SERIES “2” 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.

The bonds were issued and listed in the Philippine Dealing & Exchange Corp. on March 10, 2020.

The Series A and Series B Bonds have fixed interest rates 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 for the payment of transaction-related fees, costs and expenses.

REDEMPTION OF FIXED-RATE PESO-DENOMINATED NOTES BY SMC

On May 26, 2020, SMC redeemed the ₱10,000 million two-year fixed-rate Peso-denominated notes issued on May 25, 2018.

The notes were redeemed from the proceeds of the U.S.\$1,950 million loan drawn in March 2020.

ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES (SPCS) BY SMC GLOBAL POWER

On January 21, 2020, SMC Global Power issued U.S.\$600 million SPCS at an issue price of 100%, with an initial rate of distribution of 5.7% per annum. The securities were listed on the Singapore Exchange Securities Trading Limited on January 22, 2020. The net proceeds will be applied by SMC Global Power for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

Apart from pursuing coal projects, SMC Global Power is also focused on investing in BESS and renewable energy projects as part of its objective to operate in an environmentally-responsible manner while considering energy security and affordability to its customers.

REDEMPTION OF SERIES “I” PREFERRED SHARES (SMCP1) BY SMC

As approved by the Board of Directors on March 12, 2020, SMC redeemed on April 14, 2020 all the outstanding SMCP1 totaling 279,406,667 preferred shares at a redemption price of ₱75.00 per share, plus any accumulated unpaid cash dividends. SMC paid ₱20,956 million to the holders of SMCP1.

The SMCP1 was redeemed from the proceeds of the U.S.\$1,950 million drawn in March 2020 out of the U.S.\$2,000 million facility agreement.

The shares redeemed were not considered retired and may be re-issued by SMC at a price to be determined by the Board of Directors. The shares are merely suspended until re-issued by SMC, upon the approval of the application for lifting of trading suspension by SMC, in accordance with the listing rules of the Philippine Stock Exchange.

ISSUANCE OF REDEEMABLE PERPETUAL SECURITIES (RPS) BY SMC

In June 2020, SMC issued a total of ₱10,810 million RPS at an issue price of 100% for general corporate requirements.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution at the rate of 5% per annum, payable quarterly in arrears every March, June, September and December of each year commencing on September 2020. SMC has the right to defer this distribution under certain conditions.

PAYMENT OF OTHER MATURING OBLIGATIONS

In the first semester of 2020, the Group paid ₱17,626 million of maturing obligations funded by cash generated from operations.

Petron, SMC, Energy, Infrastructure, and other businesses paid a total of ₱7,824 million, ₱4,028 million, ₱2,892 million, ₱2,336 million and ₱546 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

The Group’s consolidated sales for the first semester of 2020 declined by 31% to ₱352,796 million from ₱509,495 million of the same period in 2019, while consolidated operating income was at ₱14,928 million, 74% lower from ₱57,616 million last year. This was mainly brought on by Petron’s losses coupled with the drop in sales of the Beer and Non-Alcoholic Beverages (“NAB”) division under Food and Beverage business due to the liquor ban implemented during the Enhanced Community Quarantine (“ECQ”).

Consolidated EBITDA was at ₱42,186 million, lower than last year’s ₱79,876 million even with the EBITDA of the Energy business and the Food division under Food and Beverage business showing double-digit increase compared to the same period last year.

Lower cost of sales by 27% to ₱299,682 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and the Food and Beverage business, and (b) Energy business’ (i) lower power purchases due to lower average spot prices and volumes as a result of community quarantine, (ii) lower coal cost and inventory consumption of Sual Power Plant due to decline in net generation, longer outages, and declining average cost of coal, and (iii) lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants and lower natural gas prices for the Ilijan Power Plant.

The decrease in selling and administrative expenses by 12% to ₱38,186 million was mainly due to the lower distribution costs and advertising and promotions expenses of the Beer and NAB division under Food and Beverage business.

The decrease in interest expense and other financing charges was mainly due to: (a) Energy business’ (i) lower interest on finance lease liabilities of the entities under IPPA Agreements due to declining principal balance, (ii)

higher capitalization of interest by MPCCL for its ongoing construction projects, and (b) Petron's lower average interest rate despite higher borrowing level and reduced bank charges.

The decrease in interest income was primarily due to lower interest rates and average balance of cash and money market placements.

The decrease in equity in net earnings (losses) of associates and joint ventures was mainly due to the share in higher net loss of AHC, reduced by the higher share in net income of MNHPI, from two months share in 2019 to six months in 2020. MNHPI was deconsolidated and became a joint venture effective April 2019.

Loss on sale of property and equipment in 2020 pertains mainly to the loss on retirement of SMYPC Manila Plastics Plant's fixed assets caused by the fire incident in Pandacan, Manila.

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 non-fulfillment of obligations under procurement-related contracts, net of (b) SMYPC Manila Plastic Plant's inventory loss from the fire incident in Pandacan, Manila in February 2020, and (c) Infrastructure business' gain recognized in 2019 on the fair valuation of MNHPI upon deconsolidation.

The lower income tax expense was primarily due to: (a) Petron's tax benefit from loss before tax for the first semester of 2020 versus income before tax in the same period last year and (b) lower taxable income of SMB.

Consolidated net loss amounted to P3,988 million for the first semester of 2020, compared to consolidated net income of P26,152 million in the same period last year.

Share of non-controlling interests ("NCI") on the Group's net income decreased mainly due to net loss of Petron for the first semester of 2020 versus net income in the same period last year and lower net income of SMB.

The following are the highlights of the performance of the individual business segments:

1. *FOOD AND BEVERAGE*

SMFB's consolidated sales for the first half amounted to P122,815 million, 19% lower than the same period in 2019. This was mainly brought about by the significant decline in the Beer division sales during the ECQ, which was partly offset by the higher sales from Spirits division and Prepared and Packaged Food segment of the Food division.

Consolidated operating income and net income amounted to P11,363 million and P7,338 million, both lower by 47% and 50%, respectively.

a. *Beer and NAB Division*

SMB, for the first half, posted consolidated sales of P42,793 million, 39% lower versus last year as consolidated volume declined by 44%.

Correspondingly, consolidated operating income amounted to P7,359 million, 61% down from last year. Net income stood at P5,023 million.

Domestic Operations

Domestic operations' volume was 46% lower than last year mainly due to the implementation of ECQ in mid-March, liquor bans and the temporary closure of on-premise and off-premise outlets. With the easing of restrictions from ECQ to General Community Quarantine and gradual re-opening of the economy, domestic operations' performance picked up by mid-May with significant beer volume recovery in June.

Tempered volumes translated to sales of P38,465 million and operating income of P7,152 million, lower by 40% and 61% than last year, respectively. Given these challenges, effective cost management via rationalized spending, tighter business controls and other cost saving initiatives were implemented which helped sustain the domestic operations' positive profit level in the first semester.

International Operations

International operations performance likewise reflected the effect of the different levels of lockdown and restrictions in the countries we operate particularly in Indonesia. Hong Kong, Vietnam and its Exports markets, however, have registered favorable results.

b. Spirits Division

GSMI's volume quickly rebounded after the ECQ restrictions were eased and liquor ban lifted in most key cities in the middle of May. While volume still ended 10% lower, this was an improvement from the 14% deficit in the first quarter. This brought second quarter profit to grow more than 2x versus the same period last year.

Volumes were boosted by continued push of its brand relevance, prompt replenishment of its stocks in starved outlets, as well as expanding its products in e-commerce channels via the San Miguel Treats online store and promotion through its online 'Ginumanfest' live concert held last June 20.

First half consolidated sales ended slightly higher than the same period last year at P14,843 million.

Operating income amounted to P1,807 million, 13% higher than last year and net income grew 28% to P1,257 million from last year.

c. Food Division

The Food division registered relatively flat consolidated sales of P65,180 million during the first half. Its January to June performance primarily reflected the impact of the ECQ imposed in March, which led to the closure of many food service and retail establishments and restricted the movement of goods to the trade. Although, most of the Food segments started to recover in June with the easing of quarantine measures, the overall sales performance of the Protein and Animal Nutrition and Health segments was severely affected by the ECQ but cushioned by the strong performance of the Prepared and Packaged Food segment.

Revenue of the Protein segment, which consists of Magnolia Chicken and Monterey Meats businesses, declined by 6% compared to the same period last year. Many of food service customers, including fast food chains and lechon manok outlets, were forced to close shop during the ECQ. Likewise, sales in wet markets and supermarkets were affected due to decreased foot traffic resulting from lack of public transportation and closure of some poultry stalls as market days were reduced in certain areas.

The Animal Nutrition and Health segment experienced a 10% decline in revenue as volume fell across most of its feed segments, primarily due to the impact of the ECQ and the African Swine Fever. However, Animal Nutrition and Health segment saw an opportunity to grab market share from competitors whose operations were hampered by the lockdown. This allowed the segment to post a 3% growth in volume in June.

Meanwhile, the Prepared and Packaged Food segment sustained its 17% revenue growth for the first half, cushioning the impact of the ECQ on the Food division, as it benefitted from consumer stock-piling and donations of essential packaged goods during the quarantine period. As in-home dining became the norm, consumer demand for canned meats such as corned beef and SPAM, as well as refrigerated meats soared. Sales of dairy products likewise grew by double-digits.

Even as volume improved by 5%, revenue of the Flour segment ended flat in the first half. Volumes were lifted by the increased demand for breads by households and the resumption of operations of institutional customers. With the restaurants shut down and everyone under a lockdown, most people emerged as chefs and bakers and pushed sales of retail baking premises and baking ingredients.

Despite challenging market conditions, the Food division's consolidated operating income doubled to P2,246 million from the same period last year due to improved product mix, lower prices of major raw materials, and various cost-saving initiatives. Consolidated net income amounted to P1,338 million from P447 million last year.

2. *PACKAGING*

The Packaging business' performance for the first semester continued to be dragged down by the low volumes from its key customers, particularly Beer and Spirits divisions of Food and Beverage business, which were partly offset by the steady deliveries from its health and pharmaceutical customers, improved sales from the food and beverage sectors for home consumption and the stable performance from its Malaysia operations, as well as increased trading and manufacturing activities of the Australasia business.

Sales and operating income amounted to P14,512 million and P318 million, down by 19% and 81%, respectively.

3. *ENERGY*

SMC Global's consolidated sales for the first half amounted to P57,177 million, 21% lower versus last year, as off-take volume of 12,837 gigawatt hours (gwh), posted a 12% decline from same period last year. This was primarily due to the deferral of the commencement to supply Meralco under the 290MW mid-merit power supply agreement and the 260MW extended contract pending ERC approval. The provisional approval of the ERC on the mid-merit contract was issued only on March 16, 2020, while the approval on the extension is still pending. Moreover, the new Meralco baseload power supply agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts that expired in December 25, 2019.

Though sales volume from industrial and contestable customers declined during the government-imposed quarantine period, this was compensated by improved utility demand. The Group also has an effective take-or-pay arrangement with most of its utility customers.

With lower fuel costs and power dispatch strategies implemented, operating income ended slightly lower at P18,120 million versus same period last year. Net income, on the other hand, amounted to P9,063 million, 25% higher than last year.

4. *FUEL AND OIL*

Petron's challenges persisted throughout the six months period this year as global crude prices remained volatile which have been worsened by the decline in demand during the ECQ period, specifically during the second quarter.

Consolidated sales amounted to P152,357 million for the first half of 2020, 40% lower from P254,807 million in the same period last year. Consolidated sales volume from its Philippine and Malaysian operations also was down 19% to 41.9 million barrels from 51.9 million barrels a year ago amidst a sharp decline in fuel demand because of the Coronavirus Disease 2019's ("COVID-19") impact.

The worldwide lockdowns resulted in an unprecedented demand destruction which led to a sustained drop in oil prices, reaching record low levels in 26 years. Dubai crude collapsed by almost 70% or US\$44/bbl from January to April and oil price fell to as low as US\$13/bbl in the daily trading. Refining margins also remained weak in the region as oil consumption declined. The combined slump in demand, poor refining margins, and collapse in prices resulted in Petron's consolidated net loss of P14,236 million for the first six months of 2020 versus its P2,620 million net income in 2019. Declining crude prices caused inventory losses of nearly P15 billion during this period. Petron continues to improve its productivity and reduces expenses to cope with COVID-19's impact.

5. *INFRASTRUCTURE*

The Infrastructure business' operating toll roads similarly reflected the full impact of the ECQ lockdown from mid-March until mid-May which restricted travel movements throughout Luzon. This brought traffic volume to drop by 40% for the first half.

Consolidated sales likewise fell 46% to P6,675 million, while operating income stood at P951 million.

A significant recovery in traffic flow has already been seen after the easing of the ECQ restrictions with some operating toll roads already registering near pre-COVID-19 level.

2019 vs. 2018

The Group's consolidated sales for the first semester of 2019 amounted to P509,495 million, 2% higher than 2018, mainly driven by strong performance of Energy and Food and Beverage businesses. This was driven mainly by higher volumes for most of the major businesses.

Cost of sales increased by 4% from P392,855 million in 2018 to P408,618 million in 2019. The increase primarily resulted from the full six months operations of Masinloc Power Plant, Unit 2 of Davao Power Plant and Unit 3 of Limay Power Plant, higher energy fees of Ilijan and Sual Power Plants, higher average natural gas price for Ilijan and increased average spot prices of the Energy business. The increase was also due to the volume growth of the Food and Beverage business and higher prices of major raw materials of the Food division.

Selling and administrative expenses increased mainly due to: (a) higher distribution costs, advertising and promotions, taxes and licenses and amortization expenses of Beer and NAB division and higher logistics costs and personnel expenses of the Food division of the Food and Beverage business, and (b) higher taxes and licenses, personnel expenses, fuel and oil, travel and transportation, utilities and supplies expenses of the Energy business.

The Group's consolidated operating income amounted to P57,616 million, 14% lower than 2018, mainly due to Petron, which continue to be weighed down by the prevailing volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery of Petron was temporarily shut down for the scheduled major maintenance and additional repair works needed after the April 22, 2019 earthquake. The Food and Beverage business, particularly the Food division, also continues to be affected by rising raw material costs and low chicken prices due to higher inventory coming from imports. The decline was partly offset by the higher operating income of Beer and Spirits divisions and the Energy business.

The higher interest expense and other financing charges was mainly due to the higher level of long-term debt and generally higher interest rate in 2019 compared to 2018.

The higher interest income was primarily due to the higher interest rate and average balance of cash and money market placements.

The increase in equity in net earnings of associates and joint ventures mainly represents the share of SMC Global on AHC lower net loss in 2019 as compared to 2018.

The gain on sale of property and equipment in 2019 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for various projects, while 2018 pertains mainly to the sale by SMPI of its investment in Legacy Homes, Inc.

The other income - net in 2019 versus other charges - net in 2018 was primarily due to the appreciation of the Philippine Peso in June 2019 compared to the depreciation of the Philippine Peso in June 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss 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 PSALM over the finance lease-related expenses, (b) higher taxable income of SMB and SPPC, and (c) recognition by SMC of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018.

Consolidated net income amounted to P26,152 million in 2019.

Share of NCI decreased in 2019 mainly due to the lower net income of Petron, partly offset by the increase in the share of NCI on SMB's higher net income.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

SMFB's consolidated sales for the first semester of 2019 reached P151,107 million, 10% higher than P137,608 million reported in the same period in 2018, mainly driven by Beer and Spirits' strong volume. Consolidated

operating income, however, ended 6% lower at P21,568 million on account of the decline in the Food division's performance.

Net income stood at P14,670 million.

a. Beer and NAB Division

SMB's consolidated sales for the first semester of 2019 reached P70,283 million, 12% higher than the same period in 2018, as consolidated volume increased by 10%.

Domestic Operations

Domestic operations posted an 11% volume growth from 2018, as consumption continued to be robust in all key areas around the country. This has been boosted by SMB's new sales and marketing campaigns initiatives, consistent consumer penetration via trade programs and various activities which proved to further strengthen its brand equity, with Red Horse and San Miguel Pale Pilsen maintaining its position as the top selling brands for SMB.

International Operations

International operations, meanwhile, posted a slight decline in volume due to the slowdown in sales of its local mainstream brands which has been partly offset by the healthy growth of San Miguel brands.

As a result, SMB's consolidated operating income rose to P18,933 million, up 9%, while net income grew to P13,258 million, 12% higher from 2018.

b. Spirits Division

GSMI concluded the first semester of 2019 with strong volume growth, which was 17% higher than 2018's level led by its core brands Ginebra San Miguel and Vino Kulafu, the result of the business' relentless sales efforts to expand more through distribution and support from its continuous consumer promos and advertising campaigns such as the highly anticipated jersey collection, 'Dosenang Lakas May Instant Pa-Buenas' under-the cap-promo and numerous on-ground Ginumanfest activations across the country.

Along with price adjustments implemented during the second quarter of 2019, sales grew 20% to P14,695 million from 2018. Operating income hit P1,596 million, 85% higher than 2018 level, the result of strong volume, higher revenues and lower costs.

Net income ended at P980 million, 94% higher from 2018.

c. Food Division

The Food division's consolidated sales for the first semester of 2019 amounted to P66,131 million, 5% higher than 2018 with all its businesses posting revenue growth boosted by higher volumes and better selling prices from almost all categories.

Protein segment revenue grew 3%, driven mainly by poultry's 9% volume growth, backed by higher chicken sales from its stable-priced channels.

Animal Nutrition and Health segment revenue also grew 3% due to favorable market prices and higher sales from high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

Prepared and Packaged Food segment, meanwhile, provided double-digit revenue growth of 13%, driven mainly by value-added meats' and butter, margarine and cheese' 4% and 6% volume growth, respectively, coupled with better selling prices from its core products - Tender Juicy, Purefoods Corned Beef, Nuggets, Luncheon Meat, and Magnolia breadfill and spreads.

Flour segment revenue, on the other hand, grew 10% on a 3% volume growth and higher selling prices.

The Food division's operating income, however, ended significantly lower than 2018 at P1,063 million mainly due to the prevailing rising cost of raw materials and the effect of the oversupply of poultry which dragged down selling prices during the first quarter of 2019.

Poultry prices, while still lower compared to figures in 2018, have shown some recovery during the second quarter of 2019.

Similarly, net income ended lower at P447 million.

2. *PACKAGING*

The Packaging business delivered sales of P17,835 million during the first semester of 2019, 2% higher versus 2018 mainly from increased sales from Glass, Plastics, Metal, Flexibles and Malaysian operations.

Operating income amounted to P1,697 million, 3% higher than 2018.

3. *ENERGY*

SMC Global Power posted consolidated off-take volume of 14,635 gwh during the first semester of 2019, 28% higher than the same period in 2018 from new bilateral contracts obtained from both the regulated and contestable power markets. These were supplied through the additional power generated from the Masinloc, Limay and Malita Power Plants, combined with the improved plant capacity factors from the Sual and Ilijan Power Plants. These resulted to a 26% increase in consolidated sales to P72,511 million from P57,430 million in 2018.

Consequently, consolidated operating income increased by 8% to P18,384 million, while consolidated net income of P7,263 million grew significantly higher versus the same period in 2018.

4. *FUEL AND OIL*

Petron's performance for the first semester of 2019 continued to be affected by the volatile movements in world crude oil prices and weak refining margins. The Bataan Refinery was temporarily shut down for its scheduled major maintenance and additional repair works needed following the April 22, 2019 earthquake. Demand in the Philippine market also slowed down due to the effect of the second tranche of the excise tax increase under the Tax Reform for Acceleration and Inclusion Law. This resulted to lower consolidated volumes of 51.9 million barrels, even with Malaysia's higher volumes. Consolidated sales reached P254,807 million, down by 7% during the first half of 2019.

Consolidated operating income and net income settled at P9,787 million and P2,620 million, 37% and 72% decline from 2018, respectively.

5. *INFRASTRUCTURE*

SMC Infrastructure's operating toll roads vehicular traffic volumes continue to grow posting a combined 6% increase during the first half of 2019. Consolidated sales amounted to P12,315 million.

Operating income reached P6,030 million.

III. **FINANCIAL POSITION**

2020 vs. 2019

Consolidated total assets as at June 30, 2020 amounted to about P1,852,049 million, P34,315 million or 2% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents, partially offset by the decrease in trade and other receivables and inventories.

The increase in cash and cash equivalents by P57,966 million was mainly from the issuance by SMC of US\$1,950 million corporate notes and RPS and by SMC Global Power of US\$600 million SPCS. The increase was reduced by SMC's redemption of SMCP1 and payment of corporate notes, various capital expenditures of the Group, and payment of dividends and distributions.

The decrease in trade and other receivables by P11,928 million was mainly due to the lower trade customer balances by Petron attributable to lower fuel prices and drop in sales volume.

The decrease in inventories by P33,951 million was attributable mainly to lower prices as well as lower volume of crude and finished products of Petron Philippines.

The decrease in current portion of biological assets by P702 million was mainly due to the Poultry segment's reduction in flocks loaded due to reduced available capacity from delayed or prolonged harvest.

The increase in prepaid expenses and other current assets by P5,764 million was primarily due to: (a) MPPCL's net addition on its restricted cash account and increase in input taxes of the Energy business during the period, and (b) Petron's higher prepaid insurance, unused creditable withholding taxes and specific tax and product replenishment claims.

The decrease in accounts payable and accrued expenses by P33,861 million was mainly due to lower liabilities for crude and petroleum products of Petron brought about by the drop in prices as at end of first semester 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in total long-term debt, net of debt issue costs, by P104,982 million was due mainly to: (a) SMC's availment of US\$1,950 million corporate notes, (b) SMFB's issuance of P15,000 million fixed-rate Peso-denominated bonds. The increase was partly offset by foreign exchange adjustments on the foreign currency-denominated loans.

The decrease in deferred tax liabilities by P3,426 million was largely due to: (a) recognition of deferred tax assets by Petron arising from net operating loss carry-over ("NOLCO") for the period, net of (b) higher deferred tax liabilities recognized by SMEC, SPPC and SPDC mainly on the difference of monthly fixed payments to PSALM over the finance lease-related expenses, particularly on the additional foreign exchange gain recognized on the US Dollar-denominated finance lease liabilities.

The decrease in total lease liabilities by P12,070 million was primarily due to the payments made to PSALM by the entities under IPPAs.

The increase in other noncurrent liabilities by P1,780 million was due to: (a) MPGC recognition of retention payable related to the ongoing Mariveles Power Plant Project and (b) SMC's increase in derivative liability due to fair valuation and foreign exchange translation.

The balance of RPS amounting to P10,702 million in 2020 pertains to the issuance by SMC of RPS in June 2020, net of costs related to the issuance.

The decrease in equity reserves by P3,429 million pertains mainly to the currency translation adjustments for the period resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in unappropriated retained earnings by P12,209 million was mainly due to net loss for the period and dividends declared by SMC.

The increase in treasury stock by P20,956 million represents the redemption by SMC of its 279,406,667 SMCP1 on April 14, 2020.

2019 vs. 2018

Consolidated total assets as at June 30, 2019 amounted to P1,731,979 million, P55,337 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents from the issuance of SPCS by SMC Global Power in April 2019 and the recognition of right-of-use ("ROU") assets with the adoption of PFRS 16, Leases.

The increase in trade and other receivables by P9,724 million was mainly attributable to the: (a) higher bilateral and spot sales of SPPC and SMEC, and from the new power plants in Limay and Masinloc, and (b) increase in trade customer balances of Petron attributable to higher fuel prices, partly offset by the decrease in Petron Malaysia's Government subsidy receivable.

The decrease in prepaid expenses and other current assets by P16,821 million was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and utilization of input tax for the period in 2019, and (b) decrease in Citra Central Expressway Corp.'s restricted cash balance.

The increase in investments and advances by P2,292 million was attributable to the reclassification of SMHC's investment in MNHPI from subsidiary to joint venture.

The decrease in property, plant and equipment by P156,020 million, the balance of the ROU assets of P178,109 million and the increase in investment property by P15,317 million were primarily the result of the adoption of PFRS 16.

The increase in biological assets - net of current portion by P263 million was caused by the increase in production cost, mainly due to higher feed costs.

The decrease in other intangible assets by P7,642 million was mainly due to the deconsolidation of MNHPI's port concession rights, offset by the recognition of additional concession rights for the various infrastructure projects.

The increase in deferred tax assets by P1,129 million was mainly due to the recognition of deferred tax assets by the Food division of Food and Beverage business arising from NOLCO and minimum corporate income tax, and the effect of the adoption of PFRS 16 to the Group.

The increase in other noncurrent assets by P10,107 million was mainly due to advances of MPGC to suppliers and contractors for the construction of its power plant, capitalized costs on the construction of Metro Rail Transit Line 7 Project and purchase of new containers by SMB.

The decrease in loans payable by P19,841 million was mainly due to the net repayment of US Dollar and Philippine Peso short-term loans by Petron, settlement of US\$120 million short-term loan by SMC Global Power, offset by net availment by SMC of short-term Peso loans for general corporate purposes.

The increase in total lease liabilities by P10,507 million was primarily the result of the adoption of PFRS 16 by the Group, net of the payments made to PSALM by the entities under IPPAs.

The increase in dividends payable by P326 million primarily represents the dividends declared by PT. Delta Djakarta Tbk. on June 19, 2019, which was paid on July 18, 2019 to its minority shareholders.

The increase in total long-term debt, net of debt issue costs, by P16,146 million was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global Power, (b) total drawdown of US\$536 million from US\$800 million long-term loan facility by Petron, and (c) availment of P16,000 million long-term corporate notes by SMC, (d) offset by the redemption of Series C and E bonds of SMB and partial prepayment of US Dollar and refinancing of Philippine Peso loans by Petron.

The decrease in other noncurrent liabilities by P1,639 million was mainly due to the deconsolidation of MNHPI, net of the increase in derivative liability of SMC due to foreign exchange and fair valuation.

The decrease in equity reserves by P1,919 million pertains to the currency translation adjustments for the period in 2019 resulting from the appreciation of Philippine Peso against the US Dollar.

The decrease in appropriated retained earnings by P22,506 million was attributable to the reversals made by the: (a) Energy business for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC, and (b) SMB for the Sta. Rosa Plant Packaging Line 2 and Polo Brewery Line 3 Projects and for the payment of Series C and E bonds.

The increase in unappropriated retained earnings by P28,707 million was primarily due to the reversal of appropriations and net income for the period in 2019, net of cash dividends.

The increase in NCI by P45,972 million pertains to the issuance of SPCS by SMC Global Power and preferred shares by Petron.

Equity

The increase (decrease) in equity is due to:

(In millions)	June 30	
	2020	2019
Net addition to non-controlling interests and others	P14,087	P42,819
Issuance of redeemable perpetual securities	10,702	-
Net income (loss) during the period	(3,988)	26,152
Other comprehensive loss	(4,242)	(2,125)
Cash dividends and distributions	(15,214)	(14,170)
Redemption of series “1” preferred shares	(20,956)	-
	(P19,611)	P52,676

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

(In millions)	June 30	
	2020	2019
Net cash flows provided by operating activities	P13,500	P47,923
Net cash flows used in investing activities	(35,265)	(47,312)
Net cash flows provided by financing activities	84,121	26,768

Net cash flows provided by operating activities for the period basically consists of income (loss) for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities included the following:

(In millions)	June 30	
	2020	2019
Additions to property, plant and equipment	(P30,304)	(P27,960)
Increase in other noncurrent assets and others	(9,165)	(24,008)
Additions to investments and advances	(547)	(862)
Proceeds from sale of property and equipment	546	406
Dividends received	800	1,067
Interest received	3,405	4,675
Cash and cash equivalents of a deconsolidated subsidiary	-	(621)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(9)

Net cash flows provided by financing activities included the following:

(In millions)	June 30	
	2020	2019
Proceeds from long-term debt - net	P111,905	P21,867
Net proceeds from issuance of senior perpetual capital securities and preferred shares of subsidiaries	30,173	45,661
Proceeds from issuance of redeemable perpetual securities	10,702	-
Payment of short-term loans - net	(3,888)	(15,904)
Payment of lease liabilities	(12,301)	(10,969)
Redemption of preferred shares of a subsidiary	(15,000)	-
Payment of cash dividends and distributions	(15,394)	(13,845)
Redemption of series “1” preferred shares	(20,956)	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P4,390 million) and (P3,104 million) for the periods ended June 30, 2020 and 2019, respectively.

V. KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” for the discussion of certain Key Performance Indicators.

	June 2020	December 2019
Liquidity:		
Current Ratio	1.59	1.46
Quick Ratio	1.13	0.96
Solvency:		
Debt to Equity Ratio	2.34	2.16
Asset to Equity Ratio	3.34	3.16
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	0.16%	6.36%
Interest Rate Coverage Ratio	0.92	2.38
Return on Assets	1.00%	2.78%
	Period Ended June 30	
	2020	2019
Operating Efficiency:		
Volume Growth (Decline)	(20%)	3%
Revenue Growth (Decline)	(31%)	2%
Operating Margin	4%	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	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company*}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
KPI	Formula
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

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, 2019. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as at December 31, 2019 and 2018, 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, 2019. All necessary adjustments to present fairly the Group's consolidated financial position as at December 31, 2019 and the financial performance and cash flows for the year ended December 31, 2019 and for all the other periods presented, have been made.

I. 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. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

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	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.

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 New and Amended Standards and Interpretation

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

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rates ranging from 3.9% to 10.3% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is

uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:
 - *Prepayment Features with Negative Compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.
 - *Modification of Financial Liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the

transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.

- Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.
- IFRIC Agenda Decision on Over Time Transfer for Constructed Goods (PAS 23) for the Real Estate Industry. In 2019, the IFRIC published an agenda decision on the eligibility of capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development for entities which recognize revenue over time. The IFRIC concluded that inventory for unsold units under construction, which is ready for its intended sale in its current condition, is not a qualifying asset based on the definition provided by PAS 23. Accordingly, any incurred borrowing costs related to the construction of real estate inventories are not capitalized as part of real estate inventories and are to be recognized directly as expense in the consolidated statements of income.

Prior to 2019, the Group capitalized borrowing costs from interest-bearing loans and borrowings specifically obtained for the construction of its real estate projects.

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

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

II. FINANCIAL PERFORMANCE

Comparisons of key financial performance for the last three years are summarized in the following tables.

	Years Ended December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Sales	P1,020,502	P1,024,943	P826,086
Cost of Sales	818,815	825,748	644,221
Gross Profit	201,687	199,195	181,865
Selling and Administrative Expenses	(85,972)	(82,110)	(70,823)
Operating Income	115,715	117,085	111,042
Financing Charges – net	(45,344)	(38,304)	(31,189)
Equity in Net Earnings (Losses) of Associates and Joint Ventures	105	(289)	297
Gain (Loss) on Sale of Investments and Property and Equipment	(237)	252	879
Other Income (Charges) – Net	6,848	(5,628)	154
Net Income	48,574	48,648	54,814
Net Income Attributable to Equity Holders of the Parent Company	21,329	23,077	28,225
Net Income Attributable to Non-controlling Interests	27,245	25,571	26,589

2019 vs. 2018

The Group's consolidated sales revenue for the year 2019 amounted to P1,020,502 million, at par versus 2018. Higher volumes from SMC Global Power Corp. (SMC Global) and San Miguel Food and Beverage, Inc. (SMFB) continue to drive revenue growth, but was moderated by the decline in the sales performance of Petron Corporation (Petron).

Cost of sales amounted to P818,815 million, slightly lower than 2018 at P825,748 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 SMFB and higher broiler cost, processing cost and major raw materials of the Food division.

Selling and administrative expenses increased by 5% to P85,972 million compared to last year, mainly due to (a) higher personnel expenses, logistics costs, contracted services costs and marketing expenses of SMFB, and (b) higher operating expenses of 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 P115,715 million, from last year, weighed down by Petron and SMFB - Food division. This was partly offset by SMFB's Beer and Spirits divisions and the Energy business which delivered strong results during the period.

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 money market placements.

The increase in equity in net earnings mainly represents the share of San Miguel Properties, Inc. (SMPI) on Bank of Commerce (BOC) higher earnings and the share of San Miguel Holdings Corp. (SMHC) on the earnings of Manila North Harbour Port Inc. (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 investments and property and equipment in 2019 pertains mainly to the disposal and retirement by San Miguel Yamamura Packaging Corporation (SMYPC) of its Cebu Beverage Packaging Plant.

Other income - net in 2019 was primarily due to the appreciation of the Philippine Peso by P1.945 versus other charges - net in 2018 where the Philippine Peso depreciated by P2.65 in 2018. This resulted to a foreign exchange gain of P5,422 million in 2019 compared to a foreign exchange loss of P9,714 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 San Miguel Brewery (SMB). This was partially offset by lower provision for income tax recognized by Petron, SMFB - Food division and San Miguel Energy Corporation (SMEC) due to the decline in taxable income.

Consolidated net income amounted to P48,574 million, at par from last year.

Share of non-controlling interests increased in 2019 mainly due to the higher share of non-controlling interests on SMC Global's Undated Subordinated Capital Securities (USCS) and Senior Perpetual Capital Securities (SPCS) distribution and SMFB's higher net income, partly offset by lower net income of Petron.

The following are the highlights of the performance of the individual business segments:

6. FOOD AND BEVERAGE

SMFB consolidated revenue for the year ended at P310,785 million, 9% higher than the P286,378 million reported in 2018, on account of strong volumes from the Beer and Spirits divisions and better selling prices. Consolidated operating income grew 4% versus last year to P47,781 million, mainly driven by the Beer and Spirits divisions sustained strong performance. This was partly offset by the slowdown in the Food division.

Net income rose 6% over the previous year to P32,279 million.

a. Beer and Non-Alcoholic Beverages (NAB) Division

SMB sustained its volume growth, concluding the year with consolidated volumes of 301.6 million cases, up 6% from 2018. Consolidated revenues and operating income were both 10% higher at P142,272 million and P38,720 million, respectively. Net income grew 14% to P27,285 million.

Domestic Operations

Domestic operations sold 275.3 million cases, up 7% from the previous year. 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 and, to date, is awaiting the necessary government permits to start commercial operations.

International Operations

SMB’s 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

Ginebra San Miguel Inc. (GSMI) posted a full-year net income of P1,672 million, 59% higher than the previous year – 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 revenues reached P29,063 million, up 17%. Operating income hit P2,878 million, 57% higher than the previous year, as a result of better margins deriving from operational improvements across the supply chain.

c. Food Division

SMFB’s Food division generated consolidated revenues of P139,459 million, 5% higher than last year, on the back of higher volumes, better selling prices, and an improved product mix across most of business segments.

- 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 Flu (ASF).

- Animal Nutrition & 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 ASF 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 our new flour mill.

Net income for the Food division amounted to P3,449 million.

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.

7. PACKAGING

The SMYPC's performance remained stable throughout 2019. Sales revenues for the year amounted to P37,874 million, a slight increase from last year. This was largely due to steady demand for the Packaging Group's largest segments, Glass, Metal, and Flexibles businesses. The Packaging Group's Malaysia operations also performed strongly as did its Logistics Services' operations, following increased demand for trucking services and pallet rentals.

Operating income reached P3,598 million, 9% higher than 2018, driven by Glass and Metal volumes. Packaging saw higher orders from the Beer and Spirits businesses, as well as carbonated soft-drinks customers, supported by programs to improve efficiencies and better management of fixed costs.

8. ENERGY

SMC Global registered consolidated revenues of P135,060 million, 12% higher than the P120,103 million it 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 Plants Unit 1 and 2, Unit 2 of Malita Power Plant and Unit 3 of the Limay Power Plant. Unit 4 of the Limay Power Plant also provided additional capacity starting July 2019. In addition, the Ilijan Power Plant posted higher revenues from its bilateral and spot sales in 2019.

Consolidated operating income grew 8% at P35,954 million from 2018, while net income surged 73% to P14,364 million.

9. FUEL AND OIL

Petron faced multiple challenges during the year, foremost of which were significantly weaker refining margins and volatile global prices due to political tensions in the Middle East and uncertainties in the global economy. The price of Dubai crude declined from an average of US\$69 per barrel in 2018 to US\$63 per barrel in 2019. This was compounded by the shutdown of the Bataan refinery due to an earthquake in April. The effect of the second tranche of the excise tax increase and proliferation of white stations, also had an adverse effect on Petron's overall performance.

As a result, Petron's consolidated revenues amounted to P514,362 million, down 8% versus 2018, mainly on account of lower average selling price of fuel, and a slight decline in volumes, which ended at 107 million barrels. Philippine operations volume declined by 5% following the unplanned total plant shutdown which

began in April 2019. Petron Malaysia's domestic volumes meanwhile grew by 3%, helping offset the decline in Philippine volumes.

Operating income was also down by 14% at P16,199 million, the result of lower margins of petroleum and petrochemical products due to the combined effects of oversupply, a slowdown in demand, and the temporary cessation of refinery operations. This was partly cushioned by its extensive fixed cost savings initiatives and continued emphasis on operational efficiencies.

Petron's consolidated net income settled at P2,303 million, down by 67% from 2018's P7,069 million.

Despite this setback, Petron continues to expand its service station network to reach even more customers. In 2019, Petron opened 124 new stations, bringing its total to 2,435 service stations in the Philippines and to almost 700 in Malaysia.

10. INFRASTRUCTURE

The Infrastructure business recorded a combined 5% volume growth for the year from all of its operating toll roads. Consolidated revenues reached P23,406 million, while operating income amounted to P11,444 million.

Construction of our major infrastructure projects remain on going. This however was temporarily suspended starting on March 17, 2020 when the Enhanced Community Quarantine (ECQ) was implemented in Luzon by the Philippine government to control the spread of the Coronavirus Disease 2019 (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 Tarlac-Pangasinan-La Union Expressway (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 Mass Rail Transit (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 South Luzon Expressway (SLEX) to North Luzon Expressway 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 – Toll Road 4 (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 New 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.

2018 vs. 2017

The Group's consolidated sales revenue reached P1,024,943 million in 2018, 24% higher than 2017 mainly driven by higher volumes and favorable selling prices across all major businesses.

Cost of sales increased by 28% to P825,748 million mainly due to the: (a) increase in crude prices and effect

of excise tax of Petron, (b) higher sales volume of Beer and Food divisions under SMFB, (c) increase in excise tax by 4% per case of the domestic operations of SMB, and (d) operations of the newly acquired Masinloc Power Partners Co. Ltd. (MPPCL) and the new Greenfield Power Plants in Bataan and Davao.

Selling and administrative expenses increased mainly due to higher personnel expenses, distribution costs, contracted services costs and advertising and promotions.

Consolidated operating income increased by 5% at P117,085 million. This growth was however partly softened by higher raw material costs that impacted Petron and the Food businesses.

The higher net financing costs was mainly due to the higher level of loans payable and long-term debt in 2018 compared to 2017.

The decrease in equity in net earnings in 2018 primarily represents the share of SMC Global on the higher net loss of Angat Hydropower Corporation and share of SMPI on the lower earnings of BOC.

The gain on sale of investments and property and equipment in 2018 pertains mainly to the sale by SMPI of its investment in Legacy Homes, Inc.

The increase in other charges was primarily due to the higher foreign exchange loss on the translation of the foreign currency denominated long-term debt and finance lease liabilities, partly offset by the higher gain on the translation of foreign currency denominated cash and cash equivalents with the peso depreciating by P2.65 from P49.93 in December 2017 to P52.58 in December 2018.

Consolidated recurring net income, excluding the effect of foreign exchange translation, amounted to P55,175 million in 2018, 1% higher than P54,654 million recorded in 2017.

Growth was tempered by the sharp decline in crude oil prices which affected Petron during the fourth quarter of 2018. Consolidated net income as a result, amounted to P48,648 million.

The following are the highlights of the performance of the individual business segments:

1. FOOD AND BEVERAGE

In 2018, SMC completed the consolidation of its Beer and NAB, Spirits and Food businesses through SMFB.

SMFB delivered a strong performance in 2018, posting consolidated revenues of P286,378 million, 14% higher than the P251,589 million recorded in 2017. This was driven by higher volumes and revenues across the Beer and NAB, Spirits, and Food divisions. Consolidated operating income and net income both increased 8% to P45,950 million and P30,533 million, respectively over 2017.

a) Beer and NAB Division

SMB reported revenues amounting to P129,249 million, 14% higher from 2017, as volumes increased 10% to 284.6 million cases. Consolidated operating income rose 13% to P35,285 million while net income grew 15% to P23,836 million.

Domestic Operations

SMB's domestic operations continued to be robust, with volumes growing 11% year-on-year as consumption across the country remained strong. Red Horse Beer and San Miguel Pale Pilsen maintained their position as SMB's top selling brands. Its performance was boosted by consumption-generating initiatives and defense programs which further strengthened the equity of SMB brands.

With facilities nearing full utilization, SMB is currently building a new brewery in Tagoloan, Misamis Oriental in Mindanao and converting its Sta. Rosa Bottling plant into a full brewery. This will add four million hectoliters to its total current capacity and help strengthen its distribution networks in Mindanao and Southern Luzon which will result to savings on logistics.

International Operations

SMB's International Operations benefitted from volume growth in its South China and Indonesia operations as well as Exports, and better sales mix. As such, despite continuing challenges in the business

environment in North China, Hong Kong, Vietnam, and Thailand, SMB International registered double-digit growth in operating income.

b) Spirits Division

GSMI recorded a banner year in 2018, sustaining strong sales volume which reached 31.4 million cases, 13% better than 2017. Flagship brand Ginebra San Miguel continued to drive growth, driven by its nationwide “*Ginebra Ako*” campaign, various on-ground activities and trade promotions. Vino Kulafu, its Chinese wine brand, also continued to post strong growth. The brand got a boost from its “*Dosenang Lakas, May Instant Pa-Buenas*” under-the-cap promo and tactical consumer activities in Visayas and Mindanao regions.

All these translated to revenues of P24,835 million, 19% higher than 2017. Operating income surged 40% to P1,832 million, due to strong volumes and lower operating costs, while net income increased 75% to P1,053 million.

c) Food Division

Food division posted consolidated revenues of P132,299 million, 13% higher than 2017, on account of the strong performance of the Animal Nutrition and Health, Protein, and Prepared and Packaged Food segments. Most of the food business segments registered double-digit revenue growth, resulting from increased sales volumes and better selling prices.

Revenues from the Animal Nutrition and Health segment, comprising the feeds and vetmed, posted a revenue growth of 14%. The Protein segment, which includes the poultry and fresh meats, grew by 11%, while the Prepared and Packaged Food segment expanded by 15%.

The rising costs of major raw materials, intense competition and the additional impact of peso depreciation, however, pulled Food division’s operating income, down 7% to P9,182 million compared to the same period in 2017.

Net income fell 15% to P5,885 million, affected by a weaker peso, start-up and pre-operating expenses of the new facilities, and higher interest expenses related to its expansion projects.

Food division made significant strides in its ongoing expansion in 2018, completing new facilities that will provide much-needed additional capacities to serve the growing demand and changing preferences of consumers. These include feedmills in Bulacan and Bataan, and one hotdog plant in Cavite. Ongoing projects include additional feedmill facilities in Davao, Cebu and Cagayan de Oro, a flour mill in Mabini, Batangas and its first ready-to-eat facility in Sta. Rosa, Laguna that will cater to the growing demand for convenient, pre-prepared and pre-cooked meals.

2. PACKAGING

The Packaging business completed two acquisitions in 2018. In June, it acquired through San Miguel Yamamura Packaging International Ltd., JMP Holdings, a supplier of packaging products for various industries, including retail packaging, cargo protection, and materials handling. In January 2019, through San Miguel Yamamura Woven Products Ltd., it acquired INSA Alliance Sdn Bhd, a Malaysian manufacturer of high quality bulk bags. The acquisition complements its existing woven bags plant in Malaysia.

Sales revenues for the year 2018 amounted to P37,325 million, 16% higher than 2017, as all business segments delivered solid results. Glass set record deliveries to SMB and GSMI; Metals benefited from a favorable sale mix for crowns; deliveries of Plastic crates and pallets were sustained; and logistics operations delivered significant growth with the increase in demand for rented pallets and trucking services.

The Packaging business’ Australian operations continued to contribute significantly to overall growth, registering strong sales across the different operations.

With the implementation of stringent fixed cost management measures and further improvements in productivity, operating income grew 11% to P3,311 million.

3. ENERGY

SMC Global's consolidated off-take volume for 2018 reached 23,864 Gwh, 39% higher than 2017. Much of this growth was attributed to the start of commercial operations of Units 2 and 3 of the Malita and Limay Greenfield Power Plants in February and March 2018, respectively. Together, these new units have brought online 300 megawatts (MW) of fresh capacity. With the acquisition of the Masinloc Power Plant in March 2018 which added a combined capacity of 684 MW, total installed capacity reached 4,197 MW in 2018.

With higher off-take volumes and average realization price, consolidated revenues rose 45% to P120,103 million from P82,791 million in 2017. This was mainly driven by the additional revenues from the new Greenfield Power Plants, the Masinloc Power Plant and higher average prices from the Sual and Ilijan bilateral and spot offtake volumes. Operating income reached P33,174 million, 37% higher while net income amounted to P8,300 million, 1% higher from 2017, which was offset by the effect of forex movements.

4. FUEL AND OIL

Petron reported consolidated revenues of P557,386 million for 2018, 28% higher than the P434,624 million in 2017 which was mainly driven by strong domestic sales of high-margin products such as gasoline, Jet-A1 and liquefied petroleum gas, on the account of higher prices of crude oil and finished products.

Petron's consolidated volume reached 108.5 million barrels, slightly higher than the 107.8 million barrels sold in 2017, led by strong retail sales in Malaysia.

During the fourth quarter of 2018, the oil industry has been challenged by increase in global oil production supply which saw crude prices falling sharply starting second half of October until December. Benchmark Dubai crude averaged at US\$79.4 per barrel in October which fell to US\$57.3 per barrel in December, a US\$ 22.1 per barrel drop by year-end of 2018. This was also combined with substantially weak gasoline refining margins on the supply side factors.

Consolidated operating income and net income stood at P18,921 million and P7,069 million, 32% and 50% decline from 2017, respectively as a result of inventory losses incurred in November and December.

Petron's Bataan refinery utilization in 2018 hit 95%, an all-time high for the refinery, enabling it to produce even more high-value fuels and petrochemicals. Petrochemical and polypropylene sales grew by 3% and 28%, respectively, driving the export volume growth by 7%.

Petron stations continue to grow in the Philippines and Malaysia which is now over 2,400 and 640 stations, respectively.

5. INFRASTRUCTURE

The Infrastructure business reported in 2018 revenues of P24,530 million, a 9% increase from 2017, mainly driven by continuous growth in vehicular volume from all operating toll roads. As a result, operating income reached P11,828 million, 13% growth from 2017.

Construction of ongoing projects is on track. The 14.82-kilometer Skyway Stage 3 Project is in the advanced stages of construction. The 88.82-kilometer TPLEX is now operational up to the Pozzorubio exit. The last phase from Pozzorubio to Rosario, La Union, is currently under construction.

Construction of the 22-kilometer MRT 7 Project, is progressing well. Work on the stretch from Quezon Memorial Circle to Quirino Highway traversing Commonwealth Avenue and Regalado Avenue in Quezon City, is partially complete.

Phase 1 of the Bulacan Bulk Water Supply Project was completed end of 2018. It has started supplying potable water to six Bulacan municipalities in the first quarter of 2019.

Preparations for the start of construction of SLEX-TR4 which held its groundbreaking on March 26, 2019 and Skyway Stage 4 are underway.

III. FINANCIAL POSITION

A. The following are the major developments in 2019:

INVESTMENT IN SUBSIDIARIES

Deconsolidation of MNHPI

On March 14 and April 26, 2019, respectively, the Philippine Competition Commission (PCC) and the Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI). With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while SMHC's shares remained at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. 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 P1,061 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%.

For 2019, the Group has undertaken various financing activities, the significant transactions are as follows.

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

- **INFRA GROUP**

Atlantic Aurum Investments Philippines Corporation (AAIPC)

On December 16, 2019, AAIPC availed a P17,300 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. Proceeds of the loan were mainly used to refinance existing debt obligations, and for the construction of Skyway Stage 3 Project. The loan is payable in 39 quarterly installments up to December 2029 and subject to fixed interest rate.

Private Infra Dev Corporation (PIDC)

On December 19, 2019, PIDC drew P12,000 million from its P42,000 million Second Amendment to the Omnibus Loan and Security Agreement (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 TPLEX project. The loan is subject to fixed interest rate and payable in 39 quarterly installments up to September 19, 2029.

- **SAN MIGUEL FOOD AND BEVERAGE**

SMB

On December 26, 2019, SMB availed of a P10,000 million five-year term loan. The loan is subject to fixed interest rate payable quarterly. The proceeds were used for general corporate purposes.

San Miguel Foods Inc. (SMFI)

On December 12, 2019, SMFI drew P10,000 million from its P18,000 million ten-year term loan facility. The loan is subject to floating interest rate with a one-time option to convert to fixed interest rate within two years. The proceeds were used to refinance existing short-term loans and fund its capital expenditure

requirement for the upgrade or expansion of its production facilities and/or to finance other general corporate requirements.

San Miguel Mills Inc. (SMMI)

On December 19, 2019, SMMI availed of a P2,000 million seven-year term loan. The loan is subject to floating interest rate with a one-time option to convert to fixed rate within two years. The proceeds of the loan were used to refinance existing short-term loans, fund its capital expenditure requirements for the upgrade or expansion of its production facilities and/or finance other general corporate requirements.

- **SMC**

On June 24, 2019, the Parent Company availed of a P16,000 million fixed rate seven-year term loan. The loan is subject to fixed interest rate payable quarterly. The proceeds were used for general corporate purposes.

FOREIGN CURRENCY DENOMINATED LOANS

- **Petron**

In May and July 2019, Petron availed of US\$536 million and US\$264 million loans, respectively, from its US\$800 million term loan facility. The proceeds were used to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to partially prepay its existing US\$1,000 million term loan and for general corporate purposes. The loan is subject to floating interest rate and will mature on May 15, 2024.

- **MPPCL**

In 2019, MPPCL availed a total of US\$75 million loan from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335MW coal-fired power plant within the existing facilities of MPPCL. 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, the Parent Company drew US\$50 million from its term loan facility amounting to US\$2,000 million. The loan is subject to floating interest rate with maturity date on September 27, 2024. The proceeds of the loans will be used for general corporate purposes.

- **Others**

San Miguel Yamamura Australasia Pty. Ltd. (SMYA)

On July 31, 2019, SMYA drew AU\$80 million from AU\$100 million syndicated facility agreement entered into by SMYA on July 23, 2019. The loan is amortized over five years and is subject to floating interest rate. Proceeds of the loan were used to refinance maturing short-term obligations and general corporate purposes.

ISSUANCE AND REDEMPTION OF BONDS

Shelf-Registration of P60,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC Global and Issuance of P30,000 Million Bonds

On March 29, 2019, the Philippine Securities and Exchange Commission (SEC) approved the shelf registration of up to P60,000 million worth of fixed-rate Peso-denominated bonds of SMC Global.

On April 24, 2019, SMC Global issued and listed in the Philippine Dealing & Exchange Corp. (PDEx) the first tranche of the fixed-rate Peso-denominated bonds amounting to P30,000 million.

The Bonds consist of: (i) three-year Series H Bonds, due in 2022 with an interest rate of 6.8350% per annum; (ii) five-year Series I Bonds, due in 2024 with an interest rate of 7.1783% per annum; and, (iii) seven-year Series J Bonds, due in 2026 with an interest rate of 7.6000% per annum. Interest is payable every 24th of January, April, July and October of each year.

The proceeds were used for payment of maturing long-term debt and short-term loan, in investments in power-related assets and payment of transaction-related expenses.

Issuance of P10,000 Million Worth of Fixed-Rate Peso-Denominated Bonds by SMC

On October 4, 2019, the Parent Company 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 New Manila International Project.

Redemption of Fixed-Rate Peso-Denominated Bonds by SMB

On April 2 and 3, 2019, SMB redeemed its Series E and C fixed-rate Peso-denominated bonds amounting to P10,000 million and P2,810 million, respectively. The Series E and C bonds formed part of the P20,000 million and P38,800 million fixed-rate bonds issued in 2012 and 2009, respectively.

PAYMENT OF MATURING OBLIGATIONS

During the year, the Group paid P14,382 million of maturing obligations funded by cash generated from operations.

The Infrastructure, Energy and Packaging business paid a total of P8,642 million, P4,511 million and P1,031 million, respectively, of their maturing long-term debt.

ISSUANCE AND REDEMPTION OF EQUITY

SMC Global Issuance of US\$1,300 Million SPCS

On April 25, 2019, SMC Global issued US\$500 million SPCS (the “Original Securities”) at an issue price of 100%, with an initial rate of distribution of 6.5% per annum.

On July 3, 2019, SMC Global issued an additional US\$300 million SPCS (the “Additional Securities”) at an issue price of 102.052% plus an amount corresponding to accrued distributions from (and including) April 25 to (but excluding) July 3, 2019. The Additional Securities were consolidated into and formed a single series with the Original Securities issued in April 2019. The Additional Securities are identical in all respects with the Original Securities, other than with respect to the date of issuance and issue price.

On November 5, 2019, SMC Global issued another US\$500 million SPCS (the “2nd Original Securities”) at an issue price of 100% with an initial rate of distribution of 5.95% per annum.

Proceeds from SPCS were used for the redemption of US\$300 million USCS, and for general corporate purposes, including capital expenditures and investments in power-related assets.

The US\$1,300 million SPCS are all listed in the Singapore Stock Exchange.

Petron Issuance of 20,000,000 Series 3 Perpetual Preferred Shares

On June 25, 2019, Petron issued and listed on the Philippine Stock Exchange 13,403,000 Series 3A and 6,597,000 Series 3B Perpetual Preferred Shares for a total amount of P20,000 million.

Dividends are 6.8713% per annum and 7.1383% per annum for Series 3A and Series 3B, respectively.

The net proceeds were used for the redemption of 7,122,320 Series 2A preferred shares, repayment of maturing short-term loans, long-term debt loans and general corporate purposes.

Petron Redemption of Series 2A Preferred Shares (PRF2A Preferred Shares)

On November 4, 2019, Petron redeemed 7,122,320 PRF2A Preferred Shares at a redemption price of P1,000.00 per share. Petron paid P7,122 million to the holders of PRF2A Preferred Shares.

SMC Redemption of Series “2” Preferred Shares - Subseries “2-B” (SMC2B Preferred Shares)

On September 23, 2019, the Parent Company redeemed 90,428,200 SMC2B Preferred Shares at a redemption price of P75.00 per share. The Parent Company paid P6,782 million to the holders of SMC2B Preferred Shares. The Parent Company initially obtained a short-term bridge financing loan to redeem the SMC2B Preferred Shares.

The bridge financing loan was paid using the proceeds of the P10,000 million worth of fixed rate Peso-denominated bonds issued by the Parent Company on October 4, 2019.

B. The following are the major developments in 2018:

INVESTMENT IN SUBSIDIARIES

Food and Beverage

▪ Consolidation of Food and Beverage Businesses

On November 3, 2017, the Board of Directors (BOD) of SMC approved the internal restructuring to consolidate its food and beverage businesses under SMFB. The corporate reorganization is expected to: (a) result in synergies in the food and beverage business units of the Group; (b) unlock greater shareholder value by providing a sizeable consumer vertical market under SMC; and (c) provide investors direct access to the consumer business of the Group through SMFB. On the same day, the BOD of SMC approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

On March 23, 2018, the SEC approved the amendment to the Articles of Incorporation of San Miguel Pure Foods Company Inc. (SMPFC) consisting of (a) change of the corporate name from SMPFC to SMFB, (b) change in the primary purpose to include engaging in the beverage business, (c) change in the par value of the common shares of SMFB from P10.00 per share to P1.00 per share, and (d) denial of preemptive rights to issuances or dispositions of any and all common shares.

On April 5, 2018, SMC and SMFB signed the Deed of Exchange of Shares pursuant to which SMC will transfer to SMFB, SMC's 7,859,319,270 common shares of the capital stock of SMB and 216,972,000 common shares of the capital stock of GSMI (collectively, the “Exchange Shares”) at the total transfer value of P336,349 million. As consideration for its acquisition of the Exchange Shares, SMFB shall issue in favor of SMC 4,242,549,130 common shares of the capital stock of SMFB (the “New SMFB Shares”). The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 million divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share to P12,000 million divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the BOD and shareholders of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of SMC's ownership in SMFB common shares from 85.37% to 95.87% and

the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

With the approval of the increase in the authorized capital stock of SMFB, the SEC consequently accepted and approved the transfer value of the Exchange Shares amounting to P336,349 million, the investment value of SMFB in SMB and GSML.

On October 12, 2018, the Bureau of Internal Revenue (BIR) issued BIR Certification No. SN: 010-2018 which confirmed the tax-free transfer by SMC of the Exchange Shares, in consideration for the New SMFB Shares. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

- **Follow-on Offering of SMFB Shares**

On October 26, 2018, the SEC issued the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale relating to the offer of up to 1,020,050,000 common shares in SMFB owned by SMC (the “Offer Shares”) in a secondary sale transaction at an offer price of P85.00 per share.

In 2018, SMC completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants’ share allocation, for a total net cash proceeds of P35,083 million.

With the completion of the follow-on offering, the total number of common shares held by SMC in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

Energy

- **Acquisition of the Masinloc Group**

On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US\$1,900 million (P98,990 million). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd.) (“SMCGP Philippines Energy”). MPPCL owns, operates and maintains the 1 x 330 MW and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage system project, all located in Masinloc, Zambales, Philippines (collectively, the “MPPCL Assets”), while SMCGP Philippines Energy plans to construct the 2 x 20 MW battery energy storage facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of SMC Global.

As part of the acquisition, SMC Global also acquired AES Transpower Private Ltd. (ATPL) and AES Philippines, Inc. (API). ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

The Masinloc Group was consolidated by SMC Global effective March 20, 2018.

API changed its name to SMCGP Philippines Inc. on May 22, 2018.

On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. and SMCGP Transpower Pte. Ltd., respectively.

The transaction was financed through the following:

- a) Availment by SMC Global of a US\$500 million term loan and a US\$700 million term loan on March 15, 2018 and March 16, 2018, respectively.

In 2018, SMC Global partially paid US\$350 million of the US\$500 million term loan.

- b) Availment by SMC of a total of US\$400 million floating interest rate term loan maturing on March 13, 2023 and a total of US\$400 million long-term loans.

SMC subscribed to US\$650 million Redeemable Perpetual Securities issued by SMC Global and made a US\$150 million advance to SMC Global.

On August 17, 2018, SMC Global paid the US\$150 million advance from SMC.

LONG-TERM DEBT

- **REFINANCING OF LOANS**

- a) **Availment of Loans**

- SMC**

- Availment of US\$300 Million Term Loan**

- In 2018, SMC availed of a US\$300 million five-year Term Facility subject to a floating interest rate of LIBOR plus margin.

- The proceeds were used to refinance existing US dollar-denominated obligations and/or for general corporate requirements.

- Availment of US\$200 Million Term Loan**

- On November 21, 2018 SMC availed of a US\$200 million term loan which is subject to a floating interest rate of LIBOR plus margin.

- The proceeds were used to refinance existing US dollar-denominated obligations.

- GSMI**

- Availment of P1,000 Million Term Loan**

- On September 24, 2018, GSMI drew P1,000 million from a five-year credit facility with a local bank to refinance its existing short-term obligations. The loan is carried at amortized cost and is subject to a fixed interest rate, and equal quarterly installments commencing in September 2019.

- b) **Redemption of US\$750 Million USCS**

- Petron**

- On January 22, 2018, Petron redeemed US\$402 million of its US\$750 million USCS from the proceeds of the issuance of the US\$500 million SPCS. The SPCS were listed with the Singapore Exchange Securities Trading Ltd. on January 22, 2018.

- The remaining balance of US\$348 million of the USCS was redeemed from the proceeds of the issuance of the P20,000 million peso-denominated fixed rate bonds out of its P40,000 million shelf registered Peso bonds.

- The bonds are comprised of the six-year Series C Bonds, due in 2024 with an interest rate of 7.8183% per annum and seven-year Series D Bonds, due in 2025 with an interest rate of 8.0551%.

- **REDENOMINATION OF FOREIGN CURRENCY LOANS**

- In 2018, the Group redenominated certain foreign currency loans to reduce exposure to changes in

the peso-dollar exchange rates.

SMC

Issuance of P20,000 Million Fixed Rate Peso-denominated Bonds

On March 19, 2018, SMC issued and listed in the PDEX P20,000 million peso-denominated fixed rate bonds out of the P60,000 million shelf registered Peso bonds of the Parent Company.

The bonds are comprised of the five-year Series E Bonds due in 2023, seven-year Series F Bonds due in 2025 and ten-year Series G Bonds due in 2028.

The Series E, F and G Bonds have fixed interest rate equivalent to 6.2500% per annum, 6.6250% per annum and 7.1250% per annum, respectively.

The proceeds from the issuance were used for the payment of the US dollar-denominated short-term loan and long-term debt.

Issuance of P10,000 Million Fixed Rate Peso-denominated Notes

On May 25, 2018, SMC issued and listed with the PDEX peso-denominated Fixed-Rate Notes (the “Fixed-Rate Notes”) amounting to P10,000 million. The Fixed-Rate Notes have interest rate equivalent to 5.25% per annum due in 2020.

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.

SMC Global

On August 17, 2018, SMC Global issued and listed with the PDEX the second tranche of the P35,000 million shelf registered fixed rate bonds amounting to P15,000 million. The Bonds have interest rate equivalent to 6.75% per annum due in 2023.

Proceeds from the issuance were used to refinance the outstanding shareholder advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

▪ AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECT/INVESTMENT

SMC Consolidated Power Corporation (SCPC)

On January 31, 2018, SCPC drew P2,000 million from the P44,000 million OLSA with various local banks dated June 22, 2017 to finance the ongoing construction of the 2x150 MW Limay Coal-fired Power Plant Phase II, comprising of Unit 3 and Unit 4.

Luzon Clean Water Development Corporation (LCWDC)

On various dates in 2018, LCWDC drew a total of P4,200 million from the P5,400 million OLSA with various local banks dated September 16, 2016. The loans are subject to a floating interest rate.

Proceeds of the loan were used for the Bulacan Bulk Water Supply Project.

Citra Central Expressway Corp. (CCEC)

On various dates in 2018, CCEC drew a total of P18,100 million from the P31,000 million OLSA with various local banks dated December 15, 2014 for the project cost of the Skyway Stage 3.

SMC

On June 26, 2018, SMC availed of a US\$300 million five-year Facility Agreement to fund general corporate requirements and/or additional investments. The loan is subject to a floating interest rate.

MPPCL

On July 6, 2018 and October 8, 2018, MPPCL drew a total of US\$120 million from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335MW (gross; Unit 3) coal-fired plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche and a floating interest tranche, with maturities up to December 2030.

San Miguel Consolidated Power Corporation (SMCPC)

On August 17, 2018, SMCPC drew P20,322 million from the P21,300 million OLSA with various local banks dated August 9, 2018, to fund the design, construction and operations of the Malita Power Plant.

San Miguel Yamamura Asia Corporation (SMYAC)

On various dates in 2018, SMYAC drew a total of P3,300 million from its P4,000 million term loan facility to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and for general funding requirements. The loan is subject to a floating interest rate with maturities up to July 2023.

▪ **PAYMENT OF MATURING OBLIGATIONS**

Infrastructure Group

In 2018, the SMC Infrastructure Group paid a total of P10,512 million of its maturing long-term debt.

Energy Group

In 2018, the Energy Group paid a total of P3,226 million of its maturing long-term debt.

Other Subsidiaries

In 2018, Petron, SMYPC, SMYAC, East Pacific Star Bottlers Phils Inc., and Can Asia, Inc. paid their maturing long-term debt amounting to P7,514 million.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2019 vs. 2018

Consolidated total assets as at December 31, 2019 amounted to about P1,817,734 million, P141,092 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 P43,307 million is mainly due to the issuance of SPCS by SMC Global, preferred shares of Petron and loan availment of the Parent Company.

The increase in trade and other receivables by P6,595 million is mainly due to Petron's higher fuel prices and excise tax of fuel products, higher revenue of the Beer and Food divisions under SMFB, SCPC and MPPCL, partly offset by the decrease in Petron Malaysia's government subsidy receivable.

The increase in inventories by P8,517 million is mainly due to Petron's higher volume of finished product and price of crude and the incremental excise tax-imposed beginning 2019.

The decrease in prepaid expenses and other current assets by P5,458 million was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and also utilization of input tax for the period, and (b) decrease in CCEC's restricted cash balance. The decrease was partly offset by Tax Credit Certificate (TCC) received by SMB for the San Mig Light tax cases, and increase in Infrastructure Group's input taxes.

The increase in investments and advances was attributable to the reclassification of SMHC's investment in MNHPI from subsidiary to joint venture, net of the reclassification by SMC Global of its investment in Mariveles Power Generation Corporation (MPGC) to investment in subsidiary.

The decrease in property, plant and equipment by P130,758 million and corresponding increase in right-of-use assets by P173,604 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 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 was mainly due to derecognized deferred tax on NOLCO of the Parent Company which expired in 2019.

The increase in other noncurrent assets by P22,764 million was mainly due to the: (a) advances to suppliers and contractors for the construction of the Mariveles Power Plant and battery energy storage system project, (b) purchase of new containers by SMB, and (c) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the TPLEX project.

The decrease in loans payable by P14,532 million was mainly due to net payment of Petron and deconsolidation of MNHPI.

The increase in accounts payable and accrued expenses by P26,273 million was mainly due to Petron's higher liabilities for crude and petroleum products on account of higher prices and more outstanding shipments as of end-2019 versus 2018, and higher outstanding payable to contractors of Infrastructure Group and MPGC.

The increase in lease liabilities - current portion 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 of the lease liabilities under Independent Power Producer Administration agreements due up to December 31, 2020 by the Energy business.

The increase in income and other taxes payable was mainly due to SMB's higher taxable income.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the US\$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes, P10,000 million fixed-rate Peso-denominated bonds and US\$50 million term loan by the Parent Company, and (d) net loan availments of Food Group, Packaging Group, Masinloc and Infrastructure Group. The increase was partially offset by the: (a) redemption of Series C and E bonds of SMB, (b) settlement of maturing obligations by Petron, the Energy business and SMC, and (c) foreign currency adjustment on the US Dollar-denominated loans.

The increase in deferred tax liability was mainly attributable to the temporary differences arising from interest and forex on the dollar-denominated finance lease liabilities of South Premiere Power Corp. (SPPC), SMEC and Strategic Power Devt. Corp. (SPDC), net of the decrease in deferred tax liability of Petron due to recognition of NOLCO for 2019.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI.

The decrease in equity reserves by P7,123 million pertains to (1) Equity reserve from the redemption of USCS by SMC Global (2) the currency translation adjustments for the period resulting from the appreciation of Peso against the US Dollar and (3) the equity reserve for retirement plan.

The decrease in the group's appropriated retained earnings by P16,131 million is attributable to the reversals made by Energy Group for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC.

The increase in unappropriated retained earnings by P24,747 million was primarily due to the net reversal of appropriations and net income for the period net of cash dividends.

The increase in Treasury shares was due to the redemption by the Parent Company of its 90,428,200 Series "2" Preferred Shares - Subseries B on September 23, 2019.

The increase in non-controlling interests by P67,737 million pertains to the (1) issuance of SPCS by SMC Global; (2) issuance of Preferred Shares by Petron; and (3) share of non-controlling interests on the group's net earnings net of dividend for the period, the increase was offset by: (1) redemption of USCS by SMC Global; (2) redemption of Preferred Shares by Petron; and (3) the effect of deconsolidation of MNHPI.

Equity

The increase in equity in 2019 is due to:

<i>(In millions)</i>	2019
Net addition to non-controlling interests and others	P59,893
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)
Adjustments due to PFRS 16 and others	(2,422)
	P62,448

2018 vs. 2017

The Group's consolidated total assets as at December 31, 2018 amounted to P1,676,642 million, P293,266 million higher than 2017. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets, and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents by P37,077 million was mainly due to proceeds from the follow-on offering of SMFB common shares in November 2018.

The increase in trade and other receivables by P13,853 million was mainly attributable to the higher revenue of SMC Global, Petron and Food segment, consolidation of Masinloc Group and increase in Petron Malaysia's government subsidy receivable.

Inventories increased primarily due to the: (a) higher prices and volume of crude oil and finished products including excise taxes of Petron, (b) consolidation of the materials and supplies of MPPCL, and (c) increase in Food segment's inventory to meet forecasted peak season sales and to maintain safety inventory levels.

Biological assets increased by P972 million mainly due to Poultry's expansion of farm capacities to support increasing supply requirement and higher growing cost due to increase in importation cost of parent stocks.

The increase in prepaid expenses and other current assets was primarily due to the net increase in restricted cash balance of CCEC and SMCP, consolidation of Masinloc Group's prepaid expenses and higher prepaid taxes, mainly from input tax, of Petron, SMC Global and SMHC.

Investments and advances increased by P14,982 million mainly due to the advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited and acquisition by SMC Equivest Corporation of 4.69% equity interest in BOC.

The increase of P70,786 million in property, plant and equipment was primarily due to the consolidation of the power plant and related facilities of the Masinloc Group.

The increase in investment property was due to the reclassification of various property, plant and equipment of Petron to investment property to reflect the usage of properties being leased out to its dealers, and acquisitions during 2018.

The increase in goodwill mainly represents the goodwill recognized as a result of the consolidation of

the Masinloc Group.

Other intangible assets increased mainly due to the costs of various infrastructure projects of the Infrastructure Group net of amortization during the period.

Deferred tax assets increased by P837 million mainly due to the effect of recognition of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated long-term debt and loans payable as a result of the depreciation of the Philippine Peso against the US Dollar in December 2018 compared to December 2017.

The increase in other noncurrent assets by P15,471 million was mainly due to the: (a) reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited from current to noncurrent due to delay in MRT 7 Project completion, (b) capitalized expenditures on the construction of MRT 7 Project, (c) purchase of new containers by SMB, and (d) the consolidation of the Masinloc Group's other noncurrent assets.

The increase in loans payable by P34,161 million was mainly due to net availment of loans for working capital and general corporate purposes by Petron, the Food division under SMFB and SMC.

Accounts payable and accrued expenses increased by P12,771 million mainly due to the consolidation of the balances of Masinloc entities.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities due in 2019 of Energy Group.

The P3,248 million increase in income and other taxes payable was mainly due to the higher excise tax of Petron and the contributed income tax and other taxes payables of the Masinloc entities.

Dividends payable decreased primarily due to dividend payments made by Citra Metro Manila Tollways Corp and SMYAC.

The increase in current maturities of long-term debt was mainly due to the reclassification to current liability of the amounts due in 2019.

The higher amount of long-term debt resulted from the: (a) loan availments made by SMC Global and SMC, and the issuance of fixed rate bonds by SMC Global to finance the acquisition of Masinloc Power, (b) consolidation of the long-term debt of MPPCL, (c) loan availments by SMC Parent for investment and general corporate purposes, and (d) loan availments by the Energy Group and the Infrastructure Group to finance capital expenditures.

The increase in deferred tax liability is mainly attributable to the temporary differences arising from interest expense, depreciation and foreign exchange.

The decrease in finance lease liabilities by P15,641 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Other noncurrent liabilities decreased primarily due to Petron's settlement of retirement liability and contribution to the retirement fund.

Equity reserves increased by P26,312 million mainly due to the effect of SMFB's share swap and the gain from the follow on offering of SMFB common shares, net of the redemption of USCS of Petron.

The increase in appropriated retained earnings by P5,930 million was mainly due to appropriations by SMFB net of the reversals of SMC Global, SMITS, Infrastructure Group, SMC Shipping and Lighterage Corporation and SMYAC.

Equity

The increase in equity in 2018 is due to:

(In millions)

2018

Income during the period	P48,648
Net addition to non-controlling interests and others	20,430
Other comprehensive income	926
Issuance of capital stock	196
Adjustments due to PFRS 9 and 15	6
Cash dividends and distributions	(29,321)
	P40,885

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	P92,195	P59,772	P79,736
Net cash flows used in investing activities	(112,040)	(196,313)	(54,132)
Net cash flows provided by (used) in financing activities	66,756	174,015	(22,386)

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities are as follows:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
	(P66,805)		
Additions to property, plant and equipment	)	(P47,323)	(P38,693)
Increase in other noncurrent assets and others	(54,338)	(40,494)	(30,531)
Additions to investments and advances and investment in debt instruments	(2,169)	(20,021)	(2,908)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(1,408)	(98,057)	(2,568)
Cash and cash equivalents of a deconsolidated Subsidiary	(626)	-	-
Interest received	10,549	6,537	4,263
Dividend received	1,886	1,906	1,355
Proceeds from sale of investments and property and equipment	871	1,139	1,930
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	-	-	13,020

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Net proceeds from issuance of senior perpetual capital securities and preferred shares of subsidiaries	P85,733	P24,881	P -
Net proceeds from long-term borrowings	72,778	176,814	67,740
Cash dividends and distributions paid	(30,652)	(29,706)	(27,023)
Redemption of undated subordinated capital securities and preferred shares of	(22,305)	(39,769)	-

subsidiaries			
Payments of lease liabilities	(20,673)	(25,698)	(24,924)
Net proceeds from (payments of) short-term borrowings	(10,532)	32,305	(40,058)
Redemption of series “2-B” preferred shares	(6,782)	-	-
Increase (decrease) in non-controlling interests and others	(811)	(91)	1,760
Proceeds from follow-on offering of common shares of a subsidiary	-	35,083	-
Proceeds from issuance of capital stock	-	196	119

The effect of exchange rate changes on cash and cash equivalents amounted to (P3,604) million, (P397) million and (P298) million on December 31, 2019, 2018 and 2017, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 million in 2019, 2018 and 2017, 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.

KEY PERFORMANCE INDICATORS

The following are the major performance measures that the Group uses. Analyses are employed by comparisons and measurements based on the financial data of the current period against the same period of previous year. Please refer to Item II “Financial Performance” of the MD&A for the discussion of certain Key Performance Indicators.

	December 31	
	2019	2018
Liquidity:		
Current Ratio	1.46	1.36
Quick Ratio	0.96	0.86
Solvency:		
Debt to Equity Ratio	2.16	2.28
Asset to Equity Ratio	3.16	3.28
Profitability:		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.36%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
Return on Assets	2.67%	2.90%
Operating Efficiency:		
Volume Growth	3%	8%
Revenue Growth	0%	24%
Operating Margin	11%	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	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$

KPI	Formula
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	$\frac{\text{Net Income}}{\text{Total Assets}}$
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

Consent Solicitation

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 million 4.875% Notes due in 2023, of which US\$516 million 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, 5.2840% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.2500% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.1250% Series G Bonds due in 2028; and (iv) 5.2500% 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 recently issued P10,000 million retail bond of the Parent Company listed on October 4, 2019; and (ii) the recently signed US\$2,000 million Syndication Agreement dated December 18, 2019 relating to the US\$1,750 million Facility Agreement dated September 27, 2019, respectively.

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 Fixed-rate Corporate Notes 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 million 4.875% Notes due in 2023, of which US\$516 million 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 recently issued P10,000 million retail bond of the Parent Company listed on October 4, 2019; and (ii) the recently contracted US\$1,750 million 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.

Transfer of Brightshore Corp. (Brightshore), SMC Integrated Farm Specialists, Inc. formerly, Sugarland Animal Farms Corporation, (Sugarland) and SMC Repair and Maintenance Inc. formerly, RealSnacks Mfg. Corp. (RealSnacks)

On June 28, September 3, and September 18, 2019, SMFB, Magnolia Inc. and SMFI, all of which are directly or indirectly controlled by SMC, transferred to SMC their equity interest in Brightshore, Sugarland and RealSnacks, through (a) assignment of subscription rights covering a total of 124,999,995 shares and sale of 5 shares for P29 million, (b) sale of shares covering 3,573,362 shares for P0.3 million and (c) sale of shares covering 1,000,000 shares for P10 million to SMC, respectively.

The transfer of the equity interest in Brightshore, RealSnacks and Sugarland to SMC resulted in a decrease in non-controlling interests amounting to P7 million as at December 31, 2019.

The transfer was accounted for as a transaction under common control using the pooling of interest method where the entities were controlled by the same ultimate parent before and after the transaction and the control was not transitory.

Deferment of the Issuance and Listing of the P60,000 Million Commercial Papers Program

On February 6, 2020, the Parent Company filed with the SEC, a registration statement, together with the prospectus, for the planned P60,000 million Commercial Papers Program, with an initial offer of P15,000 million Series A Commercial Papers with an over subscription option of up to P5,000 million.

The Parent Company on March 20, 2020, submitted a Letter-Advise to the Market and Securities Regulations Department of the SEC to inform the Commission that, upon careful consideration, the Parent Company will defer the processing of the Registration Statement and the issuance and listing of the P60,000 million commercial papers until such time that conditions stabilize, taking into consideration the COVID-19 outbreak and following the adoption by the Philippine Government of ECQ over the entire island of Luzon effective March 17, 2020 until April 12, 2020.

Acquisition of Holcim Philippines, Inc.

On May 10, 2019, the Parent Company, through First Stronghold Cement Industries, Inc., (FSCII) a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. (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 Philippine Stock Exchange, 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 Investment Holdings, Inc. filed a notice of withdrawal of its notification to the PCC covering the aforementioned proposed acquisition.

- 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.

- a. SEC Case

On September 10, 2018, SMC, SMFB, and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the “Petitioner”) against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the “Petition”). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC’s common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB’s capital stock; and (b) SMFB’s Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied on June 10, 2019.

On July 4, 2019, an appeal memorandum was filed by the Petitioner with the SEC *En Banc*. SMC, SMFB and GSMI filed their respective comments on the appeal. The case remains pending with the SEC to date.

- b. Treasury Shares of the Parent Company

A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481 million, 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 million; 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 G.R. No. 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 Republic of the Philippines 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.

c. Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

In 2004, the Parent Company was assessed by the BIR of excise taxes 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 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 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 million, 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.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General 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.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company’s counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court 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 million for the period of December 1, 2005 to July 31, 2007, and P782 million for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions

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

As at March 12, 2020, the application for the issuance of tax credit certificate was already completed and ready for submission to the BIR.

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 (CIR) to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926 million, 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 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 million.

Filed by SMB

SMB filed 11 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); and

- (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).

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 P828 million and the amount of P106 million 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 P828 million. SMB filed an application for the issuance of a Tax Credit Certification with the BIR on August 22, 2019.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division, ordering the BIR to refund the amount of P731 million. 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 Tax Credit Certificate in the amount of P731 million. On November 6, 2019, the BIR issued a Tax Credit Certificate No. TCC201600000202 in favor of SMB.

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 million. 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 CTA, 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 million in favor of SMB. SMB filed an application for Tax Credit Certificate on August 5, 2019. The BIR issued Tax Credit Certificate No. TCC201600000204 in favor of SMB on November 13, 2019.

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 million. 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 million on November 13, 2019. SMB filed an application for Tax Credit Certificate with the BIR in January 2020.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761 million, 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*. The case is still pending in the Supreme Court.

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*.

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 million 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 million. 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 million, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P5 million in addition to, and apart from, the amount of P56 million which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA Third Division.

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 million but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P4 million. 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 million, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P4 million in addition to, and apart from, the amount of P44 million 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. The Petitions for Review of SMB and the Commissioner are presently pending in the CTA *En Banc*.

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 million but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P3 million. 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 million, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P3 million in addition to, and apart from, the amount of P28 million which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA First Division.

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. The aforesaid Formal Offer of Evidence is still under consideration by the Court.

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.

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 amount of P582 million in Case No. 8953, and P133 million in Case No. 8954, or in the total amount of P715 million, 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.

These cases are still pending with 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 million, 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, 2019, 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, which is still pending resolution.

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.

d. Deficiency Tax Liabilities

Iconic Beverages, Inc. (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 million 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 September 3, 2019, IBI filed a Motion to Consolidate G.R. Nos. 241147-48 and G.R. Nos. 240651 and 240665.

On October 3, 2019, IBI received a Resolution dated June 26, 2019 denying its Motion for Reconsideration. IBI also filed a Manifestation on October 21, 2019 informing the Court that in view of its payment of P270 million on August 26, 2016, IBI shall be deemed to have fully satisfied the judgment award in accordance with the CTA First Division's Decision dated August 14, 2015.

On February 4, 2020, the IBI received a Resolution dated October 4, 2019 denying its Motion to Consolidate.

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 October 21, 2019, IBI filed a Manifestation informing the Supreme Court that the issuance of its Resolution dated June 26, 2019 in G.R. Nos. 241147-48 rendered the BIR's Petition as moot and academic. The case is still pending with the Supreme Court for resolution.

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 250665.

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 deficiency tax, in the amount of P110 million, 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 million for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 million 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 million.

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 filed by the BIR and partially granting the Motion for Reconsideration filed by IBI of said CTA *En Banc* Division.

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.

IBI filed a Manifestation and Motion on November 27, 2019 praying for the deferment of the resolution of the consolidated Petitions in view of the pending compromise settlement of the parties. On December 4, 2019, IBI received the BIR's Manifestation informing the Supreme Court that it received a Proposal for Compromise/Amicable Settlement from IBI.

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. 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 the 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 million.

SMFI

- i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation MFC) vs. 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. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and 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, which SMFI opposed. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

On August 6, 2019, the CTA *En Banc* denied 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. A Petition for Review on Certiorari dated March 2, 2020 was filed by the BIR 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, 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.

On October 2, 2019, the CTA Third Division rendered decision granting SMFI's Petition for Review and cancelling the deficiency income tax and VAT assessment issued by the BIR.

On November 4, 2019, the BIR filed a Motion for Reconsideration of the decision of the CTA Third Division. SMFI filed a Comment on the Motion for Reconsideration on November 29, 2019.

On a Resolution dated March 2, 2020, the CTA Third Division has denied Motion for Reconsideration filed by the BIR.

iii. SMFI vs. Office of the City Treasurer, City of Davao

On August 23, 2018, SMFI filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 209. On November 12, 2018, the Company filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 210. Both petitions were filed to appeal the joint decision of the 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.

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.

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 No. 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. And on March 28, 2019, CTA declared Case AC No. 209 as 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 7, 2019, SMFI submitted the required Memorandum, awaiting the court's decision.

e. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million 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 would now be considered closed and terminated.

f. 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 million. The cases were pending as at December 31, 2019. 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, which, on January 9, 2020 issued a Resolution ordering Petron to file its comment on plaintiffs' petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continue.

g. Lease Agreements with Philippine National Oil Company (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 million, 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. The motions for reconsideration were pending as at March 12, 2020.

Following the trial court's denial of PNOC's motion for reconsideration, PNOC filed a notice of appeal to the Court of Appeals, a copy of which was received by Petron on March 9, 2020.

h. Swakaya Sdn. Bhd. (Swakaya) Dispute

In 2015, a disputed trade receivable balance of RM25 million (P307 million) 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 million (P307 million). POMSB sued Swakaya and SDB 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 the POMSB and a judgment sum inclusive of interest amounting to RM28 million (P343 million) 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 million (P0.20 million) 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 exploring the possibility of a review of the said Federal Court decision.

Considering the length of time of litigation matters, a discount of RM8 million (P95 million) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 million (P20 million) was unwound this year and recognized as interest income.

The balance amounting to RM23 million (P282 million) was provided full impairment in 2019.

i. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan Independent Power Producer (IPP) Administration (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 the 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 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 Total 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 the Manila Electric Company (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 (“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. 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 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 this Court’s 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 Temporary Restraining Order 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 “First CA Resolution”), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

Meanwhile, the proceedings before the RTC continue 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.

j. 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 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.

This case is still pending with the Supreme Court *En Banc*.

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.) Notice of 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 TDI's Petition for Review on Certiorari.

These consolidated cases are still pending with the Supreme Court.

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 IPOPHL.

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 IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin"; (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like "GINEBRA

KAPITAN”; and (c) TDI’s use of “GINEBRA” would supposedly stimulate market competition.

On July 23, 2014, the Court of Appeals reversed and set aside the IPOPHL’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 Comments on TDI’s Petition for Review on Certiorari.

This case is still pending with the Supreme Court.

k. Imported Industrial Fuel Oil

SL Harbor Bulk Terminal Corporation (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 million. 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 million or one and one-half times of the assessed amount of P82 million 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.

By Order dated September 25, 2018, the case was transferred to the CTA First Division. SLHBTC’s presentation of evidence is set on May 23, 2019.

As at December 31, 2019, the case is still pending with the CTA.

l. 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 million. 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.

m. Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignation 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 Consignation 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 consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation 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 consignation 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. To date, the said motion is still pending resolution.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this refusal, the resolution of the Motion for Reconsideration is pending to date.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and Team Sual Corporation with the Energy Regulatory Commission (ERC) against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned 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, 2019 and 2018, the total amount consigned with the RTC Pasig is P491 million.

n. 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.

o. ERC 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, SPI and MPPCL filed various pleadings requesting 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 under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 2014, March 27, 2014 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, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI 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 Court of Appeals denied the aforesaid motions. On 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 and SPPC filed Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

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.

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 million, plus interest.

- Electric Power Industry Reform Act (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 the Group was selected winning bidder of the IPPA Agreements.

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, 2019.

- Commitments

The outstanding purchase commitments of the Group amounted to P113,517 million as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects is approximately P221,507 million as at December 31, 2019.

- Foreign Exchange Rates

The foreign exchange rates used in translating the US Dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P50.64 and P52.58 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P51.79, P52.69 and P50.40

in 2019, 2018 and 2017, respectively, for income and expense accounts.

- 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.
- 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 since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as at December 31, 2019.
- 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, 2019.

EXTERNAL AUDIT FEES AND SERVICES

The Parent Company paid the external auditor Audit Fees amounting to ₱9 million in 2019, ₱32 million in 2018 and ₱11 million in 2017. 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 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 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

Legal Matters

All legal opinions/matters in connection with the issuance of each Offer will be passed upon by Picazo Buyco Tan Fider & Santos (“**Picazo Law**”) for the Company and SyCip Salazar Hernandez & Gatmaitan (“**Sycip Law**”) for the Underwriters. Picazo Law and SyCip Law have no direct interest in the Company.

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 can 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, 2017, 2018, and 2019 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 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 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

The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Offer Shares. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Offer Shares and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Offer Shares 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 Offer Shares in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect as at the date of this Prospectus.

The tax treatment applicable to a holder of the Offer Shares 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 holder of the Preferred Shares.

PROSPECTIVE PURCHASERS OF THE OFFER SHARES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SHARES, 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 of the Philippines; 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.” A 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 “dividends” under this section refers to cash or property dividends. “Tax Code” means the Philippine National Internal Revenue of 1997, as amended.

The term “non-resident holder” means a holder of the Offer Shares:

- *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 Offer Shares 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”) took effect. The TRAIN amended various provisions of the Tax Code, including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor's tax, and documentary stamp tax.

Taxes on Dividends on the Offer Shares

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10.0%, which shall be withheld by the Company. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20.0% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25.0% of the gross amount, subject, however, to the applicable preferential tax rates under income tax treaties executed between the Philippines and the country of residence or domicile of such non-resident alien individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by a resident foreign corporation are not subject to income tax while those received by a non-resident foreign corporation are generally subject to income tax at a final withholding tax rate of 30.0%. The 30.0% income tax rate for dividends paid to a non-resident foreign corporation may be reduced to a lower rate of 15.0% if tax sparing applies, which is when (i) the country where the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends or (ii) the country of domicile of the nonresident foreign corporation allows at least 15.0% credit equivalent for taxes deemed to have been paid in the Philippines.

In order to avail of the 15.0% tax sparing rate, Revenue Memorandum Circular No. 80-91 (Publishing the Resolution of the Supreme Court dated March 7, 1990 in G.R. No. 76573 entitled "Marubeni Corporation vs. Commissioner of Internal Revenue and Court of Tax Appeals" re: pre-requisites for the availment of 15.0% preferential tax rate under then Section 24 (b)(1) now Sec. 25(b)(5)(B) of the Tax Code, as amended dated August 12, 1991) states that the non-resident foreign holder has to submit the following documents to the payor of the cash dividends: (i) an authenticated certification issued by the foreign tax authority that the dividends received by the non-resident foreign corporation from the domestic corporation were not among the items considered in arriving at the income tax due from the non-resident foreign corporation; (ii) the income tax return of the non-resident foreign corporation for the taxable year when the dividends were received; and (iii) an authenticated document issued by the foreign tax authority showing that the foreign Government allowed a credit on the tax deemed paid in the Philippines or did not impose any tax on the dividends. The income recipient may also file a request for a ruling from the BIR that the 15.0% income tax rate is applicable to its receipt of the dividends and the request has to comply with Revenue Memorandum Order No. 9-2014 (Requests for Rulings with the Law and Legislative Division dated February 6, 2014) and other relevant BIR issuances. The income recipient should thereafter provide the payor of the cash dividends with proof of its filing of an application for a ruling with the BIR before the deadline for the remittance to the BIR of the withholding tax on the dividends.

The abovementioned tax rates are without prejudice to applicable preferential tax rates under income tax treaties in force between the Philippines and the country of domicile of the non-resident holder. (Please see discussion on tax treaties below.)

If the regular tax rate is withheld by the Company instead of the reduced rates applicable under an income tax treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Transfer taxes (*e.g.* documentary stamp tax, local transfer tax) may be payable if the dividends declared are property dividends, depending on the type of property distributed as dividends. Stock dividends distributed *pro rata* to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to stock transaction tax if the transfer is through a local stock exchange; or if the transfer is made outside of the exchange, capital gains tax; and documentary stamp tax.

Preferential Rates under the Income Tax Treaties

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

Country	Dividends	Stock transaction tax on sale or disposition effected through the PSE (%) ⁽⁹⁾	Capital Gains Tax Due on Disposition of Shares Outside the PSE
Canada	25 ⁽¹⁾	0.6	May be exempt ⁽¹³⁾
China	15 ⁽²⁾	Exempt ⁽¹⁰⁾	May be exempt ⁽¹³⁾
France	15 ⁽³⁾	Exempt ⁽¹¹⁾	May be exempt ⁽¹³⁾
Germany	15 ⁽⁴⁾	Exempt ⁽¹²⁾	May be exempt ⁽¹³⁾
Japan	15 ⁽⁵⁾	0.6	May be exempt ⁽¹³⁾
Singapore	25 ⁽⁶⁾	0.6	May be exempt ⁽¹³⁾
United Kingdom	25 ⁽⁷⁾	0.6	Exempt ⁽¹⁴⁾
United States	25 ⁽⁸⁾	0.6	May be exempt ⁽¹³⁾

Notes:

- (1) 15% if the recipient company which is a resident of Canada controls at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (2) 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; 15% in all other cases.
- (3) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends; 15% in all other cases.

- (4) 5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends.; 15% in all other cases
- (5) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends; 15% in all other cases.
- (6) 15% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company; 25% in all other cases.
- (7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (8) 20% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation; 25% in other cases. Notwithstanding the rates provided under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with respect to Taxes on Income, corporations which are residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.
- (9) If the stock transaction tax is not expressly included in the tax treaty, the income recipient will be subject to stock transaction tax at the rate of 0.6% of the gross selling price as provided under Section 127 of the Tax Code as amended by the Section 39 of the TRAIN.
- (10) Article 2(1)(b) of the Agreement between the Government of the Republic of the Philippines and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on November 18, 1999.
- (11) Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995 signed on June 26, 1995.
- (12) Article 2 (3)(a) of Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013.
- (13) Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.
- (14) Under the income tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.

When availing of capital gains tax exemption on the sale of shares of stock under an income tax treaty, a tax treaty exemption ruling from the BIR shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a Certificate Authorizing Registration (“**CAR**”) from the BIR is required before the transfer is registered in the stock and transfer book. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the tax treaty relief ruling should be submitted to the BIR office processing the CAR.

The requirements for a tax treaty relief application in respect of capital gains tax or the stock transaction tax on the sale of shares are set out in Revenue Memorandum Order No. 72-2010 (Guidelines on the Processing of Tax Treaty Relief Applications (TTRA) Pursuant to Existing Philippine Tax Treaties dated August 25, 2010), BIR Form No. 0901-C, and other BIR issuances. These include proof of residence in the country that is a party to the income tax treaty. Proof of residence consists of a consularized certification from the tax authority of the country of residence of the seller of shares which provides that the seller is a resident of such country under the applicable income tax treaty. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

The tax treaty relief application has to be filed with the BIR before the first taxable event as defined under Revenue Memorandum Order No. 72-2010, which in respect of capital gains tax, is before the deadline for the payment of the documentary stamp tax on the sale of shares.

With respect to the availment of preferential rates for dividends under an income tax treaty, most tax treaties to which the Philippines is a party provide for a reduced tax rate of 15.0% in cases where the dividend arises in the Philippines and is paid to a resident of the other contracting state. Most income tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the dividend, 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 dividend-earning interest is effectively connected with such permanent establishment.

The BIR prescribed certain procedures for availment of tax treaty relief on dividends under Revenue Memorandum Order No. 8-2017 (Procedure for Claiming Tax Treaty Benefits for Dividend, Interest and Royalty Income of Nonresident Income Earners, dated October 24, 2016). The preferential treaty rates shall be applied by the withholding agent/income payor provided that the non-resident income recipient submits, before the dividends are credited or paid, a Certificate of Residence for Tax Treaty Relief (“**CORTT**”) Form that complies with Revenue Memorandum Order No. 8-2017. After the remittance of the withholding tax to the BIR, the withholding agent/income payor shall submit within 30 days an original copy of the duly accomplished CORTT Form.

Sale, Exchange or Disposition of Shares after the Offer Period

Capital gains tax

The net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax at the rate of 15.0% of the net capital gains realized during the taxable year.

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are subject to the following rates:

Not over ₱100,000	5.0%
On any amount in excess of ₱100,000.....	10.0%

If an applicable income tax treaty exempts net gains from such sale from capital gains tax, an application for tax treaty relief has to be filed with the BIR in accordance with BIR regulations, and approved by the BIR, to avail of the exemption. (Please see discussion below on tax treaties.) The transfer of shares shall not be recorded in the books of a company, unless the BIR has issued a CAR.

Taxes on transfer of shares listed and traded at the PSE

Unless an applicable income tax treaty exempts the sale from income and/or percentage tax (please see discussion below on tax treaties), a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder (other than a dealer in securities) is subject to a percentage tax usually referred to as a stock transaction tax at the rate of six-tenths of one percent (6/10 of 1.0%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, which shall be paid by the seller or transferor. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of his client. The stock transaction tax is classified as a percentage tax in lieu of a capital gains tax. Under certain income tax treaties, the exemptions from capital gains tax may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker, and is generally passed on to the client, the seller or transferor.

The stock transaction tax will not apply if the shares are sold outside the facilities of the PSE, including during a trading suspension. PSE Memorandum CN-No. 2012-0046 dated August 22, 2012 provides that immediately after December 31, 2012, the Philippine SEC shall impose a trading suspension for a period of not more than six (6) months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership (“**MPO**”) which requires listed companies to maintain a minimum percentage of listed securities held by the public at 10.0% of the listed companies issued and outstanding shares at all times. The sale of such listed company’ shares during the trading suspension may be effected only outside the trading system of the PSE and shall therefore be subject to taxes on the sale of shares that are not listed or traded at the stock exchange (i.e., capital gains tax and documentary stamp tax, and may even include donor’s tax).

The stock transaction tax will also not apply if the shares sold are issued by a corporation that does not meet the MPO requirement, even if the sale is done through the facilities of the PSE. Revenue Regulations No. 16-2012 (“**R.R. 16-12**”) provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

Documentary Stamp Taxes on Shares

The original issue of shares is subject to documentary stamp tax of ₱2.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. On the other hand, the transfer of shares is subject to a documentary stamp tax at a rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The documentary stamp tax is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable either by the vendor or the purchaser of the shares.

However, the sale, barter or exchange of Offer Shares should they be listed and traded through the PSE are exempt from documentary stamp tax.

Estate and Gift Taxes

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6.0%. An Investor shall be subject to donor's tax at a uniform rate of 6.0% based on the value of the total gift on the transfer of the Commercial Papers by gift in excess of PHP250,000.00 made during a calendar year, regardless of the relation of the donor to the donee.

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 Offer Shares, shall not be collected: (1) if the decedent at the time of his 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 (2) if the laws of the foreign country of which the decedent 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 that foreign country.

In case the Offer Shares 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 Offer Shares exceeded the value of the consideration may be deemed a gift, and donor's taxes may be imposed on the transferor of the Offer Shares, based on Section 100 of the Philippine Tax Code, provided that a transfer of property made in the ordinary course of business (a transaction which is a 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.

Taxation outside the Philippines

Shares of stock in a domestic corporation are considered under Philippine law to be situated in the Philippines and any gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donors' tax or estate tax.

The tax treatment of a non-resident holder in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of its domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations of non-resident holders of shares of stock under laws other than those of the Philippines.

EACH PROSPECTIVE HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE OFFER SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

REGULATORY FRAMEWORK

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 competitions, 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>	<i>Old Threshold (2019)</i>	<i>New Threshold (effective March 1, 2020)</i>
<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.

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.

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 may be.

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 or 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.

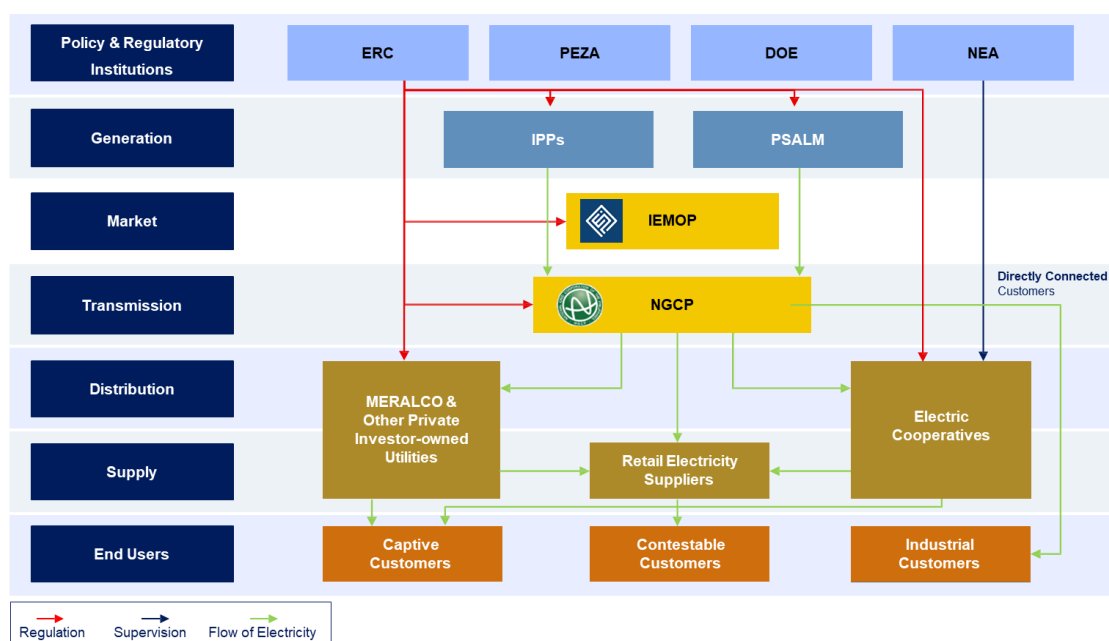
Republic Act No. 9136 or the EPIRA, provides for parity tax treatment among imported oil and indigenous fuels. Prior to the enactment of this law, indigenous fuels were imposed with higher taxes due to royalties to the Philippine government.

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 U.S.\$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:

Grid	Installed capacity (MW)	Dependable capacity (MW)	Available capacity (MW)	Peak demand (MW)
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.

ASPAs 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.

THE PHILIPPINE STOCK EXCHANGE

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Company.

Brief History

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Philippine government resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

In June 1998, the Philippine SEC granted the Self-Regulatory Organization status to the PSE, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member- governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE had an authorized capital stock of ₱120 million, of which 61.2 million shares were subscribed and fully paid-up as of June 30, 2018. Each of the 184 member-brokers was granted 50,000 common shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a “Trading Participant Certificate” was immediately conferred on each member broker allowing the use of the PSE’s trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President of the PSE.

On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE’s Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds (“ETF”) which provides for the listing of ETFs on an ETF Board separate from the PSE’s existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology (EDGe), a new disclosure system co-developed with the Korea Exchange, went live. The EDGe system provided a dedicated portal for listed company disclosures and also offered a free-to download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ's X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, PSE received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of 10 guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices

The table below sets out movements in the composite index as of the last business day of each calendar year from 2006 to 2019, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	PSEi Level at Closing	Number of Listed Companies	Aggregate Market Capitalization (in ₱ billions)	Combined Value of Turnover (in ₱ billions)
2008	1,872.85	246	4,072.16	763.90
2009	3,052.68	248	6,032.22	994.15
2010	4,201.14	253	8,866.11	1,207.38
2011	4,371.96	253	8,696.96	1,422.59
2012	5,812.73	254	10,930.09	1,771.71
2013	5,889.83	257	11,931.29	2,546.18
2014	7,230.57	263	14,251.72	2,130.12
2015	6,952.08	265	13,465.57	2,151.41
2016	6,840.64	265	14,438.77	1,929.50
2017	8,558.42	267	17,583.12	1,958.36
2018	7,466.02	267	16,146.69	1,736.82
2019	7,815.26	270	16,705.35	1,776.15

Source: PSE

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stockbrokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 p.m. and ends at 3:30 p.m. for the afternoon session. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50.0% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60.0%. All orders breaching the 60.0% static threshold will be rejected by the PSE.
- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20.0% for security cluster A and newly-listed securities, 15.0% for security cluster B and 10.0% for security cluster C); otherwise, such order will be rejected by the PSE.

Non-Resident Transactions

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

Settlement

The SCCP is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for:

- synchronizing the settlement of funds and the transfer of securities through Delivery versus Payment clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the PSE;
- guaranteeing the settlement of trades in the event of a Trading Participant's default through the implementation of its Fails Management System and administration of the Clearing and Trade Guaranty Fund; and
- performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the nine existing Settlement Banks of SCCP which are BDO Unibank, Inc., Rizal Commercial Banking Corporation, Metropolitan Bank & Trust Company, Deutsche Bank, Union Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited, Maybank Philippines, Inc., Asia United Bank, and China Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("CCCS") system on May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

Scriptless Trading

In 1995, the PDTC (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares in favor of the PCD Nominee Corporation ("**PCD Nominee**"), a corporation wholly-owned by the PDTC, whose sole purpose is to act as nominee and legal title holder of all shares lodged in the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of the PCD Nominee through the PDTC participant will be recorded in the issuing corporation's registry. This trust arrangement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to the PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (*e.g.* brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP, and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his shareholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee to confirm new balances of the shares lodged with the PDTC. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of the PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the PCD

Nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "*de facto*" custodianship role.

Amended Rule on Lodgment of Securities

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

- For a new company to be listed at the PSE as of July 1, 2009, the usual procedure will be observed but the transfer agent of the company shall no longer issue a certificate to PCD Nominee but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the depository participants on the listing date.
- On the other hand, for an existing listed company, the PDTC shall wait for the advice of the transfer agent that it is ready to accept surrender of PCD Nominee jumbo certificates and upon such advice the PDTC shall surrender all PCD Nominee jumbo certificates to the transfer agent for cancellation. The transfer agent shall issue a Registry Confirmation Advice to PDTC evidencing the total number of shares registered in the name of PCD Nominee in the listed company's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgement of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

Issuance of Stock Certificates for Certificated Shares

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for a withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are on the account of the uplifting shareholder.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

Amended Rule on Minimum Public Ownership

Under the PSE Amended Rule on Minimum Public Ownership, listed companies are required, at all times, to maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' total issued and outstanding shares (*i.e.*, exclusive of treasury shares), or at such percentage that may be prescribed by the PSE. For purposes of determining compliance with the MPO, shares held by the following are generally considered "held by the public": (i) individuals (for as long as the shares held are not of a significant size (*i.e.*, less than 10.0%) and are non-strategic in nature); (ii) trading participants (for as long as the shares held are non-strategic in nature); (iii) investment and mutual funds; (iv) pension funds; (v) PCD nominees if this account constitutes a number of shareholders, none of which has significant holdings (provided that if an owner of shares under the PCD Nominee has a shareholding that is 10% or more of the total issued and outstanding shares, then this shareholder is considered a principal stockholder); and (vi) social security funds.

Listed companies which become non-compliant with the MPO on or after January 1, 2013 will be suspended from trading for a period of not more than six (6) months and will automatically be delisted if it remains non-compliant with the MPO after the lapse of the suspension period. Suspended or delisted shares will not be traded on the exchange. In addition, sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax.

In accordance with the SEC Memorandum Circular No. 13 Series of 2017 issued on December 1, 2017, the MPO requirement on initial public offerings is increased from 10% to 20%. For existing publicly listed companies, the existing rules and/or guidelines of an exchange on minimum public float duly approved by the SEC still apply. The PSE rule on MPO requires that listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' issued and outstanding shares, exclusive of any treasury shares, or as such percentage that may be prescribed by the PSE. As of date, the SEC is looking at increasing the MPO requirement of existing listed companies to 25.0%, such proposed rules on MPO is yet to be issued by SEC for comments by the public.

APPENDIX

- A. Unaudited Consolidated Financial Statements as of and for the six months ended June 30, 2020
- B. Audited Consolidated Financial Statements as of and for the years ended December 31, 2019, 2018 and 2017
- C. List of properties owned and leased by SMC

ANNEX “B”

**SAN MIGUEL CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017**

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017**

With Independent Auditor's 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, 2019, 2018 and 2017, 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.

EDUARDO M. COJUANGCO, JR.

Chairman and Chief Executive Officer

RAMON S. ANG

President and Chief Operating Officer

FERDINAND K. CONSTANTINO

Senior Vice President and
Chief Finance Officer/Treasurer

Signed this 12th day of March 2020

ACKNOWLEDGEMENT

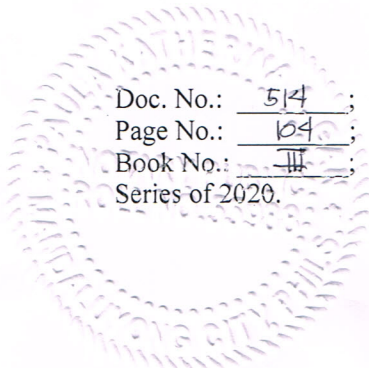
REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S.S.

Before me, a Notary Public for and in Mandaluyong City, this 12th day of March 2020,
personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date / Place of Issue</u>
Eduardo M. Cojuangco Jr.	P6769283A	04/13/18/DFA-Manila
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.



PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City



R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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 (P1,020,502 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 (P130,073 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 (P149,014 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, 2019, 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, 2019 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.

ANNEX “B-1”

Signature page of KPMG Auditors



- 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 Wilfredo Z. Palad.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020

Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(In Millions)

	<i>Note</i>	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 7, 40, 41	P286,457	P243,150
Trade and other receivables - net	4, 5, 8, 33, 35, 40, 41	136,488	129,893
Inventories	4, 5, 9	127,463	118,946
Current portion of biological assets - net	4, 16	4,151	4,245
Prepaid expenses and other current assets	4, 5, 10, 12, 33, 34, 40, 41	86,585	92,043
Total Current Assets		641,144	588,277
Noncurrent Assets			
Investments and advances - net	4, 5, 11	52,861	50,519
Investments in equity and debt instruments	4, 12, 40, 41	42,055	42,126
Property, plant and equipment - net	4, 5, 13, 34	463,614	594,372
Right-of-use assets - net	4, 14	173,604	-
Investment property - net	4, 15	51,779	31,829
Biological assets - net of current portion	4, 16	2,808	2,844
Goodwill - net	4, 5, 17, 38	130,073	130,852
Other intangible assets - net	4, 5, 17	149,014	146,608
Deferred tax assets	4, 5, 23	18,052	19,249
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 40, 41	92,730	69,966
Total Noncurrent Assets		1,176,590	1,088,365
		P1,817,734	P1,676,642
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 19, 30, 33, 38, 40, 41	P169,492	P184,024
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 40, 41	176,037	149,764
Lease liabilities - current portion	4, 5, 30, 34, 38, 40, 41	24,979	19,699
Income and other taxes payable	5	21,185	19,901
Dividends payable	33, 36, 38	4,116	4,042
Current maturities of long-term debt - net of debt issue costs	5, 21, 30, 33, 38, 40, 41	43,808	55,697
Total Current Liabilities		439,617	433,127
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 21, 30, 33, 38, 40, 41	638,996	561,918
Deferred tax liabilities	5, 23	25,265	22,899
Lease liabilities - net of current portion	4, 5, 30, 34, 38, 40, 41	117,269	122,367
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 40, 41	22,192	24,384
Total Noncurrent Liabilities		803,722	731,568

Forward

	Note	2019	2018
Equity	24, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		P16,443	P16,443
Capital stock - preferred		10,187	10,187
Additional paid-in capital		177,938	177,938
Equity reserves	5	14,390	21,513
Retained earnings:			
Appropriated		56,689	72,820
Unappropriated		173,092	148,345
Treasury stock		(116,283)	(109,501)
		332,456	337,745
Non-controlling Interests	2, 5	241,939	174,202
Total Equity		574,395	511,947
		P1,817,734	P1,676,642

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions, Except Per Share Data)

	<i>Note</i>	2019	2018	2017
SALES	6, 25, 33	P1,020,502	P1,024,943	P826,086
COST OF SALES	26, 34	818,815	825,748	644,221
GROSS PROFIT		201,687	199,195	181,865
SELLING AND ADMINISTRATIVE EXPENSES	27, 34	(85,972)	(82,110)	(70,823)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	19, 21, 30, 33, 34	(56,019)	(45,496)	(35,714)
INTEREST INCOME	31, 33, 35	10,675	7,192	4,525
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	11	105	(289)	297
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	5, 11, 12, 13, 15, 18	(237)	252	879
OTHER INCOME (CHARGES) - Net	5, 32, 40, 41	6,848	(5,628)	154
INCOME BEFORE INCOME TAX		77,087	73,116	81,183
INCOME TAX EXPENSE	23, 43	28,513	24,468	26,369
NET INCOME		P48,574	P48,648	P54,814
Attributable to:				
Equity holders of the Parent Company		P21,329	P23,077	P28,225
Non-controlling interests	5	27,245	25,571	26,589
		P48,574	P48,648	P54,814
Earnings Per Common Share				
Attributable to Equity Holders of the Parent Company	37			
Basic		P5.93	P6.61	P8.78
Diluted		5.93	6.61	8.77

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	<i>Note</i>	2019	2018	2017
NET INCOME		P48,574	P48,648	P54,814
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	35	(3,382)	(540)	(1,720)
Income tax benefit		971	170	510
Net gain (loss) on financial assets at fair value through other comprehensive income	12	(44)	46	-
Income tax expense		(6)	(6)	-
Share in other comprehensive income (loss) of associates and joint ventures - net	11	(25)	2	44
		(2,486)	(328)	(1,166)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		(3,128)	1,459	4,518
Net gain (loss) on financial assets at fair value through other comprehensive income	12	11	(9)	-
Income tax expense		(1)	-	-
Net gain on available-for-sale financial assets	12	-	-	91
Income tax expense		-	-	(3)
Net loss on cash flow hedges	41	(679)	(280)	-
Income tax benefit		192	84	-
		(3,605)	1,254	4,606
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		(6,091)	926	3,440
TOTAL COMPREHENSIVE INCOME - Net of tax		P42,483	P49,574	P58,254
Attributable to:				
Equity holders of the Parent Company		P16,839	P22,948	P30,308
Non-controlling interests	5	25,644	26,626	27,946
		P42,483	P49,574	P58,254

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	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 previously reported (Audited)		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
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 and others	3	-	-	-	-	-	-	-	-	-	(1,588)	-	-	(1,588)	(834)	(2,422)
As at January 1, 2019, As adjusted		16,443	10,187	177,938	(2,990)	(173)	514	3,239	20,923	72,820	146,757	(67,093)	(42,408)	336,157	173,368	509,525
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	41	-	-	-	-	(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

	Note	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
		Equity Reserves											Total			
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock				
		Common	Preferred							Appropriated	Unappropriated	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	41	-	-	-	-	(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

Forward

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves				Retained Earnings		Treasury Stock				
	Note	Capital Stock		Additional	Reserve for	Fair Value	Translation	Other	Appropriated	Unappropriated	Common	Preferred	Total	Non-controlling	Total
		Common	Preferred	Paid-in	Retirement	Reserve	Reserve	Equity						Interests	Equity
				Capital	Plan			Reserve							
As at January 1, 2017		P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	2,872	-	-	-	-	-	2,872	1,646	4,518
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	(3)	(25)	56	-	-	-	-	-	28	16	44
Net gain on available-for-sale financial assets	12	-	-	-	-	88	-	-	-	-	-	-	88	-	88
Equity reserve for retirement plan	35	-	-	-	(905)	-	-	-	-	-	-	-	(905)	(305)	(1,210)
Other comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	-	-	-	2,083	1,357	3,440
Net income		-	-	-	-	-	-	-	-	28,225	-	-	28,225	26,589	54,814
Total comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	28,225	-	-	30,308	27,946	58,254
Issuance of common shares	24	10	-	109	-	-	-	-	-	-	-	-	119	-	119
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	-	-	-	818	-	(239)	-	-	579	2,789	3,368
Appropriations - net	24	-	-	-	-	-	-	-	9,984	(9,984)	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,334)	-	-	(3,334)	(8,216)	(11,550)
Preferred		-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
As at December 31, 2017	24	P16,435	P10,187	P177,750	(P2,664)	P277	P2,748	(P5,160)	P66,890	P143,335	(P67,093)	(P42,408)	P300,297	P170,765	P471,062

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P77,087	P73,116	P81,183
Adjustments for:				
Interest expense and other financing charges	30	56,019	45,496	35,714
Depreciation, amortization and others - net	28	35,235	50,670	33,991
Loss (gain) on sale of investments and property and equipment	5, 11, 12, 13, 15, 18	237	(252)	(879)
Interest income	31	(10,675)	(7,192)	(4,525)
Equity in net losses (earnings) of associates and joint ventures	11	(105)	289	(297)
Operating income before working capital changes		157,798	162,127	145,187
Changes in noncash current assets, certain current liabilities and others	38	15,098	(41,077)	(19,033)
Cash generated from operations		172,896	121,050	126,154
Interest and other financing charges paid		(58,833)	(38,299)	(26,319)
Income taxes paid		(21,868)	(22,979)	(20,099)
Net cash flows provided by operating activities		92,195	59,772	79,736
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	13	(66,805)	(47,323)	(38,693)
Increase in other noncurrent assets and others		(54,338)	(40,494)	(30,531)
Additions to investments and advances and investment in debt instruments	11, 12	(2,169)	(20,021)	(2,908)
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	38	(1,408)	(98,057)	(2,568)
Cash and cash equivalents of a deconsolidated subsidiary	5	(626)	-	-
Interest received		10,549	6,537	4,263
Dividends received	11, 12	1,886	1,906	1,355
Proceeds from sale of investments and property and equipment	5, 11, 12, 13, 15, 18	871	1,139	1,930
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of		-	-	13,020
Net cash flows used in investing activities		(112,040)	(196,313)	(54,132)

Forward

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P1,405,972	P996,769	P848,320
Long-term borrowings		158,746	242,405	203,715
Payments of:				
Short-term borrowings		(1,416,504)	(964,464)	(888,378)
Long-term borrowings		(85,968)	(65,591)	(135,975)
Net proceeds from issuance of senior perpetual capital securities and preferred shares of subsidiaries	5	85,733	24,881	-
Redemption of undated subordinated capital securities and preferred shares of subsidiaries	5	(22,305)	(39,769)	-
Payments of lease liabilities		(20,673)	(25,698)	(24,924)
Cash dividends and distributions paid to non-controlling shareholders		(20,065)	(19,104)	(16,728)
Cash dividends paid	36	(10,587)	(10,602)	(10,295)
Redemption of series "2-B" preferred shares	24	(6,782)	-	-
Increase (decrease) in non-controlling interests and others		(811)	(91)	1,760
Proceeds from follow-on offering of common shares of a subsidiary	5	-	35,083	-
Proceeds from issuance of capital stock	24	-	196	119
Net cash flows provided by (used in) financing activities		66,756	174,015	(22,386)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(3,604)	(397)	(298)
NET INCREASE IN CASH AND CASH EQUIVALENTS		43,307	37,077	2,920
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	243,150	206,073	203,153
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P286,457	P243,150	P206,073

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

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.

On February 20, 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon a vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on February 23, 2019.

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 and real estate property management and development.

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

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the 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 12, 2020.

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:

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Food and Beverage Business			
San Miguel Food and Beverage, Inc. (SMFB) ^(b) (formerly San Miguel Pure Foods Company Inc. (SMPFC)) and subsidiaries [including San Miguel Mills, Inc. (SMMI) and subsidiaries, Magnolia Inc. and subsidiary, San Miguel Foods, Inc. (SMFI) and subsidiary, PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia), San Miguel Super Coffeemix Co., Inc., The Purefoods-Hormel Company, Inc. (PF-Hormel), and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investment (BVI) Limited) and subsidiary and San Miguel Pure Foods (VN) Co., Ltd.]	88.76	88.76	Philippines
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, and San Miguel Brewing International Limited (SMBIL) and subsidiaries, San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, San Miguel (Baoding) Brewery Co., Ltd. (SMBB), San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited and subsidiaries {including San Miguel Brewery Vietnam Company Limited ^(a) and PT. Delta Jakarta Tbk and subsidiary ^{(a)}} }]			
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited and Global Beverages Holdings Limited]			

Forward

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Packaging Business			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries [including SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI) ^(c)]	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited ^(a) , San Miguel Yamamura Glass (Vietnam) Limited and San Miguel Yamamura Haiphong Glass Company Limited., Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd. and subsidiary, San Miguel Yamamura Plastic Films Sdn. Bhd. and San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, Foshan Cospak Packaging Co Ltd., SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Ltd (New Zealand), SMYBB Pty Ltd, SMYJ Pty Ltd (SMYJ) ^(d) 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) ^(e)	65.00	60.00	Philippines
Energy Business			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI), 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. (formerly Masin-AES Pte. Ltd. {MAPL}) and subsidiaries ^(f) , Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Albay Power and Energy Corp. (APEC) and Mariveles Power Generation Corporation (MPGC) ^(g)]	100.00	100.00	Philippines
Fuel and Oil Business			
SEA Refinery Corporation (SRC) and subsidiary: Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor) ^(a) , Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited, Petron Oil & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries, Petron Malaysia Refining & Marketing Bhd. (PMRMB), Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. (POMSB) (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited ^(a) and subsidiaries]	100.00	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Infrastructure Business			
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC) and subsidiaries ^(a) [including SMC TPLEX Holdings Company Inc. (formerly Rapid Thoroughfares Inc.) and subsidiary, Private Infra Dev Corporation (PIDC), 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
Real Estate Business			
San Miguel Properties, Inc. (SMPI) and subsidiaries ^(a) [including SMPI Makati Flagship Realty Corp. and Bright Ventures Realty, Inc.]	99.95	99.94	Philippines
Davana Heights Development Corporation (DHDC) and subsidiaries	100.00	100.00	Philippines
Others			
San Miguel International Limited and subsidiaries [including San Miguel Holdings Limited (SMHL) and subsidiaries {including SMYPIL}]	100.00	100.00	Bermuda
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries ^(a) , including SL Harbor Bulk Terminal Corporation (SLHBTC)	70.00	70.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries ^(a) , San Miguel Northern Cement, Inc. (SMNCI) and First Stronghold Cement Industries Inc. (FSCII)]	100.00	100.00	Philippines
SMC Stock Transfer Service Corporation ^(a)	100.00	100.00	Philippines
ArchEn Technologies Inc. ^(a)	100.00	100.00	Philippines
SMITS, Inc. and subsidiaries ^(a)	100.00	100.00	Philippines
San Miguel Integrated Logistics Services, Inc. (SMILSI)	100.00	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC) ^(a)	58.33	58.33	Philippines
SMC Asia Car Distributors Corp. (SMCACDC) and subsidiary ^(a)	65.00	65.00	Philippines

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

(b) SMB and GSMI were consolidated to SMFB effective June 29, 2018 (Note 5).

(c) Incorporated on July 12, 2018 (Note 5).

(d) Consolidated to SMYPIL effective June 1, 2018 (Note 5).

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

(f) Consolidated to SMC Global effective March 20, 2018 (Note 5).

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

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, SMYAC, Petron, PIDC, TADHC, AMTEX, AAIBV, SMPI, SMCSLC, AIBC, SMNCI and SMCACDC in 2019 and 2018 and Manila North Harbour Port, Inc. (MNHPI) in 2018 (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.

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 New and Amended Standards and Interpretation

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

The Group has adopted the following PFRS starting January 1, 2019 and accordingly, changed its accounting policies in the following areas:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sublease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

The Group has adopted PFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Group recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rates ranging from 3.9% to 10.3% as at January 1, 2019.

The Group used the following practical expedients for leases previously classified as operating leases under PAS 17:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with lease term that ends within 12 months at the date of initial application;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

For leases previously classified as finance leases, the Group determined the carrying amount of the lease assets and lease liabilities immediately before the transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application.

Right-of-use assets and lease liabilities are presented separately in the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within investment property.

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	<i>Note</i>	
ASSETS		
Trade and other receivables - net		P85
Prepaid expenses and other current assets		(974)
Property, plant and equipment - net	13	(170,005)
Right-of-use assets - net	14	180,977
Investment property - net	15	11,168
Other intangible assets - net	17	(1,114)
Deferred tax assets		1,158
Other noncurrent assets - net		(2,553)
		P18,742
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses		(P858)
Lease liabilities - current portion		1,784
Lease liabilities - net of current portion		20,362
Deferred tax liabilities		(36)
Other noncurrent liabilities		(126)
Total Liabilities		21,126
Retained Earnings		(1,550)
Non-controlling Interests		(834)
Total Equity		(2,384)
		P18,742

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P34,166
Recognition exemption for short-term leases	(270)
Extension and termination options reasonably certain to be exercised	2,677
Effect of discounting at the incremental borrowing rate as at January 1, 2019	(14,427)
Lease liabilities recognized based on the initial application of PFRS 16 as at January 1, 2019	22,146
Finance lease liabilities recognized as at December 31, 2018	142,066
Lease liabilities recognized as at January 1, 2019	P164,212

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- Long-term Interests (LTI) in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*). The amendments require the application of PFRS 9, *Financial Instruments*, to other financial instruments in an associate or joint venture to which the equity method is not applied. These include LTI that, in substance, form part of the entity's net investment in an associate or joint venture.

The amendment explains the annual sequence in which PFRS 9 and PAS 28 are to be applied. In effect, PFRS 9 is first applied ignoring any PAS 28 loss absorption in prior years. If necessary, prior years' PAS 28 loss allocation is adjusted in the current year which may involve recognizing more prior years' losses, reversing these losses or re-allocating them between different LTI instruments. Any current year PAS 28 losses are allocated to the extent that the remaining LTI balance allows and any current year PAS 28 profits reverse any unrecognized prior years' losses and then allocations against LTI.

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:
 - *Prepayment Features with Negative Compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.
 - *Modification of Financial Liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.
- IFRIC Agenda Decision on Over Time Transfer for Constructed Goods (PAS 23) for the Real Estate Industry. In 2019, the IFRIC published an agenda decision on the eligibility of capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development for entities which recognize revenue over time. The IFRIC concluded that inventory for unsold units under construction, which is ready for its intended sale in its current condition, is not a qualifying asset based on the definition provided by PAS 23. Accordingly, any incurred borrowing costs related to the construction of real estate inventories are not capitalized as part of real estate inventories and are to be recognized directly as expense in the consolidated statements of income.

Prior to 2019, the Group capitalized borrowing costs from interest-bearing loans and borrowings specifically obtained for the construction of its real estate projects. The Group made adjustment on its retained earnings by P38 as at January 1, 2019.

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

New and Amended Standards and Framework Not Yet Adopted

A number of new and amended standards and framework are effective for annual periods beginning after January 1, 2019 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 and framework on the respective effective dates:

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

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). 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 definitions 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.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- 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 what is considered material. The amended definition of what is considered 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.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, 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 amendments apply for annual reporting periods beginning on or after January 1, 2020, with early application permitted.

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

- 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.

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: *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, 40 and 41).

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, 40 and 41).

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, 40 and 41).

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, 40 and 41).

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

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

The Group’s liabilities arising from its trade or borrowings such as 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, 40 and 41).

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.

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

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

Offsetting Financial Instruments

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

Derivative Financial 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, 2019 and 2018 (Note 41).

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, 2019 and 2018 (Note 41).

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 moving-average method.

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

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

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, 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	10 - 43
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Equipment, furniture and fixtures	2 - 50
Leasehold improvements	2 - 50
	or term of the lease, whichever is shorter

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

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

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

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

Leases

Policy Applicable from January 1, 2019

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

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

Group as Lessee

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

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

	Number of Years
Land	2 - 999
Buildings and improvements	2 - 10
Power plants	28 - 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.

Group as Lessor

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

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

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

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

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

Policy Applicable before January 1, 2019

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

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

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

Finance Lease

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

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

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

Operating Lease

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

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

Investment Property

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

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

	Number of Years
Land and leasehold improvements	5 - 50 or term of the lease, whichever is shorter
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40
Right-of-use assets	2 - 50

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

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

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

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

Intangible Assets

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

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

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

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	26 - 36 or unit of usage
Airport concession rights	25 - 50
Power concession right	25
Water concession right	30
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

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

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

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

Service Concession Arrangements

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

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

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

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

When the applicable entity has contractual obligations to fulfill as a condition of its license: (i) to maintain the infrastructure to a specified level of serviceability; or (ii) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures the contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, 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 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.* The Group's airport concession rights pertain to the rights granted by the Republic of the Philippines (ROP) to TADHC and SMAI: (i) to operate the Caticlan Airport (the Airport Project or the Boracay Airport) and the New Manila International Airport, respectively; (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 - 50 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 rights are 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 rights are 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.

- *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.

- *Port Concession Right.* The Group's port concession right pertains to the right granted by the Philippine Ports Authority (PPA) to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. This includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the PPA over 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 MNHPI as the project progresses. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

The port concession right is amortized using the capacity-based amortization over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

The port 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 port 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.

- *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 the units of production method utilizing only recoverable coal reserves as the depletion base. In applying the units of production 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 amortization of mining rights will commence upon commercial operations.

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 80% to 85% 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.

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.

Share-based Payment Transactions

Under the Parent Company's Long-term Incentive Plan for Stock Options (LTIP) and the Group's Employee Stock Purchase Plan (ESPP), executives and employees of the Parent Company and certain subsidiaries receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Group. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the employees of the Parent Company and certain subsidiaries are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Borrowing Costs

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

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. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

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, 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. All inter-segment transfers are carried out at arm's length prices.

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

Contingencies

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

Events After the Reporting Date

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

4. Use of Judgments, Estimates and Assumptions

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

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

Judgments

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

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

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

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

Finance Lease - Group as Lessee (Prior to the Adoption of PFRS 16). In accounting for its Independent Power Producer 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).

Lease liabilities under finance leases recognized in the consolidated statements of financial position amounted to P142,066 as at December 31, 2018 (Note 34).

The combined carrying amounts of power plants, land and equipment classified as finance lease under PAS 17 amounted to P168,404 as at December 31, 2018 (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 and P4,992 in 2018 and 2017, respectively (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 P1,346, P785 and P1,307 in 2019, 2018 and 2017, 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 P142,248 as at December 31, 2019 (Notes 34, 38, 40 and 41).

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.* The Group's airport concession rights consist of:
 - (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 - 50 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.

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. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor in 2018 (Note 5).

d. *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.

e. *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.

f. *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 "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group had less than 50% of the voting rights of MNHPI in 2018, management has determined that the Group has control in this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee. 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).

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.

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 41.

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 44).

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 P570 and P56 in 2019 and 2018, respectively (Note 8). The allowance for impairment losses on trade receivables amounted to P4,212 and P4,610 as at December 31, 2019 and 2018, respectively. The carrying amount of trade receivables amounted to P83,821 and P72,849 as at December 31, 2019 and 2018, 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 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	<i>Note</i>	2019	2018
Other Financial Assets at Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	7	P283,507	P239,619
Other current receivables - net (included under "Trade and other receivables - net" account)	8	52,667	57,044
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	18	28,784	21,158

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 P8,476 and P724, respectively, as at December 31, 2019, and P8,586 and P493, respectively, as at December 31, 2018 (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 41.

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 P1,939 and P2,168 as at December 31, 2019 and 2018, respectively (Note 9).

The carrying amount of inventories amounted to P127,463 and P118,946 as at December 31, 2019 and 2018, 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.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P476,693 and P607,277 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P197,599 and P247,352 as at December 31, 2019 and 2018, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P173,714 as at December 31, 2019. Accumulated depreciation and amortization of right-of-use assets amounted to P7,567 as at December 31, 2019 (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P51,787 and P31,837 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of investment property amounted to P15,498 and P10,996 as at December 31, 2019 and 2018, 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 P20,806 and P18,186 as at December 31, 2019 and 2018, respectively. Accumulated amortization of deferred containers amounted to P11,526 and P10,762 as at December 31, 2019 and 2018, 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 amounted to P146,099 and P143,765 as at December 31, 2019 and 2018, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P38,992 and P37,532 as at December 31, 2019 and 2018, 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, port and water concession rights amounted to P142,185 and P138,794 as at December 31, 2019 and 2018, 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 P130,073 and P130,852 as at December 31, 2019 and 2018, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,915 and P2,843 as at December 31, 2019 and 2018, 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 and P70,384 in 2019 and 2018, respectively (Notes 5, 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 are all in the exploratory stages as at December 31, 2019. 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, 2019 and 2018.

Deferred exploration and development costs included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position amounted to P711 and P705 as at December 31, 2019 and 2018, 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 P18,052 and P19,249 as at December 31, 2019 and 2018, 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 amounted to P13,197 and P12,913 as at December 31, 2019 and 2018, respectively (Notes 13, 14 and 15).

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 P912,880 and P842,798 as at December 31, 2019 and 2018, 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 P33,265 and P32,779 as at December 31, 2019 and 2018, 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 4.165% to 12.64% and 6.659% to 9.055% as at December 31, 2019 and 2018, 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 P2,217 and P3,879 as at December 31, 2019 and 2018, 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, 2019 and 2018 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 at 9% 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 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P144 and P137 as at December 31, 2019 and 2018, 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 P9 and P74 in 2019 and P5 and P74 in 2018, respectively (Notes 20 and 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 P25,386, P23,062 and P18,089 as at December 31, 2019, 2018 and 2017, 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 five to eight years 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 discount rate 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 P566 and P814 as at December 31, 2019 and 2018, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P178 and P207 as at December 31, 2019 and 2018, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments:

Food and Beverage

- SMFB

On November 3, 2017, the BOD of the Parent Company approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

On March 23, 2018, the SEC approved the amendment to the Articles of Incorporation of SMPFC consisting of the following: (a) change of corporate name from SMPFC to SMFB; (b) change in the primary purpose to include engaging in the beverage business; (c) change in the par value of the common shares of SMFB from P10.00 per share to P1.00 per share; and (d) denial of pre-emptive rights to issuances or dispositions of any and all common shares.

On April 5, 2018, the Parent Company and SMFB signed the Deed of Exchange of Shares pursuant to which the Parent Company will transfer to SMFB, the Parent Company's 7,859,319,270 common shares of the capital stock of SMB and 216,972,000 common shares of the capital stock of GSMI (collectively, the "Exchange Shares") at the total transfer value of P336,349. As consideration for the acquisition of the Exchange Shares, SMFB shall issue in favor of the Parent Company 4,242,549,130 common shares of the capital stock of SMFB (the "New SMFB Shares") out of the increase in authorized capital stock of SMFB. The New SMFB Shares will be issued out of the increase in the authorized capital stock of SMFB from P2,460 divided into 2,060,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share, to P12,000 divided into 11,600,000,000 common shares with par value of P1.00 per share and 40,000,000 preferred shares with par value of P10.00 per share which has been duly approved by the BOD and shareholders of SMFB.

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certification of Filing of Amended Articles of Incorporation. In view of the approval of the increase in authorized capital stock, SMFB issued the New SMFB Shares in favor of the Parent Company.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of the Parent Company's ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB. The Parent Company recognized a gain of P328,273 from the exchange of shares, presented as part of "Gain on sale of investments, property and equipment and others" account in the separate statements of income in 2018.

The tax-free exchange between SMFB and the Parent Company was confirmed by the BIR in its Certification No. SN: 010-2018 dated October 12, 2018. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

In 2018, SMC completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083. The Parent Company recognized a gain of P30,429 from the follow-on offering, presented as part of "Gain on sale of investments, property and equipment and others" account in the separate statements of income.

With the completion of the follow-on offering, the total number of common shares held by SMC in SMFB is 5,245,082,440 shares, equivalent to 88.76% of the total outstanding common shares of SMFB. SMFB remains compliant with the 10% minimum public float requirement of the PSE.

Energy

▪ SMC Global

a) Issuance of Senior Perpetual Capital Securities (SPCS)

SMC Global issued and listed on the Singapore Exchange Securities Trading Ltd. (SGX-ST), the following SPCS:

Date of Issuance	Initial Rate of Distribution Per Annum	Issue Price	Amount in US Dollar	Amount in Philippine Peso
April 25, 2019	6.5%	100%	US\$500	P26,070
July 3, 2019	6.5%	102.052%	300	15,348
November 5, 2019	5.95%	100%	500	25,205
			US\$1,300	P66,623

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 and are redeemable in whole, but not in part, at the SMC Global's option 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 were used by SMC Global for the redemption of US\$300 Undated Subordinated Capital Securities (USCS) in November 2019, and will be applied for the repayment of indebtedness, for general corporate purposes, including capital expenditures and investments in power-related assets and for the development of BESS projects.

On January 21, 2020, SMC Global issued US\$600 SPCS (the US\$600 SPCS), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The US\$600 SPCS was listed in the SGX-ST on January 22, 2020. The net proceeds from the issue of the US\$600 SPCS will be applied by SMC Global for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

b) Redemption of USCS

On November 7, 2019 (the “Step-Up Date”), SMC Global completed the redemption of the US\$300 USCS issued on May 7, 2014 (the “US\$300 USCS”) pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US\$300 USCS dated September 27, 2019. The redemption price of the US\$300 USCS 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 US\$300 USCS was redeemed using, in part, the proceeds of the US\$500 SPCS issued on April 25, 2019.

c) Acquisition of MAPL, SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) and SMCGP Philippines Inc. (formerly AES Philippines, Inc. [API]) (the “Masinloc Group”)

On March 20, 2018, SMC Global acquired 51% and 49% equity interests in MAPL from AES Phil Investment Pte. Ltd. (AES Phil) and Gen Plus B.V., respectively, for a total amount of US\$1,900 (P98,990). MAPL indirectly owns, through its subsidiaries, MPPCL and SMCGP Philippines Energy Storage Co. Ltd. (formerly, AES Philippines Energy Storage Co. Ltd. and hereinafter referred to as “SMCGP Philippines Energy”). MPPCL owns, operates and maintains the 1 x 330 megawatts (MW) and 1 x 344 MW coal-fired power plant (Units 1 and 2), the under-construction project expansion of 335 MW unit known as Unit 3, and the 10 MW battery energy storage system (BESS) project, all located in Masinloc, Zambales, Philippines (collectively, the “MPPCL Assets”), while SMCGP Philippines Energy plans to construct the 2 x 20 MW BESS facility in Kabankalan, Negros Occidental. The MPPCL Assets add 684 MW capacity to the existing portfolio of SMC Global.

As part of the acquisition, SMC Global also acquired ATPL and API. ATPL was a subsidiary of The AES Corporation which provides corporate support services to MPPCL through its Philippine Regional Operating Headquarters, while API was a wholly-owned subsidiary of AES Phil and provides energy marketing services to MPPCL.

The Masinloc Group was consolidated by SMC Global effective March 20, 2018.

API changed its name to SMCGP Philippines Inc. on May 22, 2018.

On May 30, 2018, MAPL and ATPL changed its name to SMCGP Masin Pte. Ltd. and SMCGP Transpower Pte. Ltd., respectively.

The following summarizes the recognized amount of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2018
Assets		
Cash and cash equivalents		P1,656
Trade and other receivables		2,439
Inventories		2,378
Prepaid expenses and other current assets		1,692
Property, plant and equipment	13	62,275
Other intangible assets		80
Other noncurrent assets		3,040
Liabilities		
Loans payable		(2,344)
Accounts payable and accrued expenses		(9,591)
Income and other taxes payable		(139)
Lease liabilities (including current portion)		(31)
Long-term debt - net (including current maturities)		(31,952)
Deferred tax liabilities		(55)
Other noncurrent liabilities		(204)
Total Identifiable Net Assets at Fair Value	38	P29,244

Goodwill recognized as a result of the acquisition follows:

	<i>Note</i>	2018
Total consideration transferred (cash)		P98,990
Non-controlling interest measured at proportionate interest in identifiable net assets		198
Total identifiable net assets at fair value		(29,244)
Goodwill	17, 38	P69,944

SMC Global incurred acquisition-related costs of P286 and P195 in 2018 and 2017, respectively, which have been included under "Selling and administrative expenses" account in the consolidated statements of income.

The fair value of trade and other receivables amounted to P2,439. The gross amount of the receivables is P2,503, of which P64 is expected to be uncollectible as at the acquisition date.

Goodwill arising from the acquisition of Masinloc Group is attributable to the benefit of expected synergies with the Group's energy business, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

The completion of the purchase price allocation exercise did not result in any adjustments to the recognized amounts of assets acquired and liabilities assumed as at December 31, 2019.

d) Additional Investment in Alpha Water

On July 13, 2018, Prime Electric Generation Corporation (PEGC), a wholly-owned subsidiary of SMC Global, acquired the remaining equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total amount of US\$10 (P532). Alpha Water is the owner of the land where the current site of the Masinloc Power Plant Complex in Zambales Province is located.

The transaction is an acquisition of non-controlling interest since the Group already has control over Alpha Water through Masinloc Group prior to the acquisition by PEGC of the 60% share in the outstanding capital stock of Alpha Water.

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 Perpetual 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 Perpetual 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, with a record date of October 10, 2019. The redemption was approved by the BOD of Petron on March 12, 2019.

c) Redemption of USCS

On January 8, 2018, Petron announced a tender offer to holders of its US\$750 USCS with expiration deadline on January 16, 2018. Tenders amounting to US\$402 (P21,309) were accepted by Petron and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. On August 6, 2018, Petron redeemed the remaining US\$348 (P18,460) of the US\$750 USCS.

The difference in the settlement amount and the carrying amount of USCS amounting to P6,296 was recognized as part of the "Equity Reserves" account in the consolidated statement of financial position as at December 31, 2018.

d) Issuance of SPCS

On January 19, 2018, Petron issued US\$500 SPCS with an issue price of 100% for the partial repurchase and redemption of its existing US\$750 USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the SGX-ST on January 22, 2018.

The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulation Code was required to be filed with the SEC.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. Petron has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at Petron's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

e) Additional Investment in NVRC

On December 17, 2018, the SEC approved the increase in authorized capital stock of NVRC. On the same date, Petron acquired additional 2,840,000 common shares of NVRC for a total consideration of P2,840 or P1,000.00 per share, which was effected through debt to equity conversion of NVRC's advances from Petron. As a result, the ownership interest of Petron in NVRC increased from 40.00% to 85.55% (Note 4).

▪ SRC

On December 12, 2018, SRC and the Parent Company executed a Subscription Agreement to subscribe to additional 10,000,000 common shares for a total subscription price of P1,510 or P151.00 per common share. The subscription price was fully paid on December 12, 2018.

Infrastructure

▪ MNHPI

The Philippine Competition Commission and Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI) on March 15 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 remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as at April 26, 2019 and recognized the investment at fair market value amounting to P2,600. As a result, the Group recognized a gain amounting to P727, included as part of “Other income (charges) - net” account in the consolidated statements of income (Note 4).

The following summarizes the accounts derecognized at the deconsolidation date:

	Note	2019
Cash and cash equivalents		P621
Trade and other receivables - net		548
Inventories		280
Prepaid expenses and other current assets		169
Property, plant and equipment - net		38
Goodwill	17	325
Other intangible assets - net	17	11,214
Deferred tax assets		56
Other noncurrent assets - net		103
Loans payable		(3,568)
Accounts payable and accrued expenses		(1,493)
Income and other taxes payable		(100)
Lease liabilities (including current portion)		(44)
Long-term debt		(300)
Other noncurrent liabilities		(2,499)
Non-controlling interest		(2,847)
Equity reserves		(630)
Total		P1,873

- **SMHC**

On December 27, 2018, the Parent Company, in a Deed of Subscription executed on the same date, subscribed to an additional 4,635,367 common shares of SMHC for a total subscription price of P6,953 or P1,500.00 per common share. The subscription price was paid in full in 2018.

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. In 2019, the Parent Company paid P16,382.

Packaging

- **SMYPC**

On September 19, 2019, the BOD and stockholders of SMYPC 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 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. The said shares will be issued by SMYPC in exchange for the SMYAC shares held by the Parent Company upon the effectivity of the merger between SMYPC and SMYAC on March 1, 2020.

- SMYAC

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 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 in cash. 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, respectively, the Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC, whereby the entire assets and liabilities of SMYAC are transferred to and absorbed by SMYPC.

On February 24, 2020, the Certificate of Filing of the Articles and Plan of Merger was approved by the SEC.

As at March 12, 2020, SMYPC is in the process of completing the requirements for the application with the BIR for a tax-free exchange certification/ruling on the merger.

- Wine Brothers Philippines Corporation (WBPC)

On July 12, 2018, the Parent Company through SMYPC incorporated WBPC, a wholly-owned subsidiary, with an authorized capital stock of P10 divided into 100,000 shares with a par value of P100.00 per share. The Parent Company, through SMYPC, subscribed to the initial authorized capital stock of WBPC for a total subscription price of P10 or P100.00 per share.

WBPC was incorporated primarily to carry on operations as an importer and distributor of wine products.

- SMYJ

On June 1, 2018, the Parent Company through SMYA acquired 100% ownership interest in SMYJ, formerly JMP Holdings Pty Ltd., for a total consideration of P590.

SMYJ is a company engaged in retail packaging products, transport packaging solutions and other products and services based in Victoria, Australia.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2018
Assets		
Cash		P32
Trade and other receivables		165
Inventories		199
Prepaid expenses and other current assets		2
Property, plant and equipment	13	15
Deferred tax assets		4
Liabilities		
Accounts payable and accrued expenses		(261)
Other noncurrent liabilities		(6)
Total Identifiable Net Assets at Fair Value	38	P150

The fair value of trade and other receivables amounted to P165. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P440 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as at the acquisition date.

The completion of the purchase price allocation exercise did not result in any adjustments to the recognized amounts of assets acquired and liabilities assumed as at December 31, 2019.

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 February 19, 2018, SMPI and the Parent Company executed a Subscription Agreement to subscribe to an additional 62,500,000 common shares of SMPI for a total subscription price of P1,250 or P20.00 per common share. The subscription price was fully paid in 2018.

- 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.

Others

- SMC Equivest Corporation (SMCEC)

On December 10, 2018, SMCEC and the Parent Company executed a Subscription Agreement to subscribe to an additional 75,000,000 common shares of SMCEC for a total subscription price of P113 or P1.50 per common share. The subscription price was fully paid in 2018.

On December 10, 2018, the BOD and stockholders of SMCEC approved the increase in the authorized capital stock from P100 divided into 100,000,000 common shares to P1,100 divided into 1,100,000 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 650,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P975 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 December 21, 2018 and was approved on March 27, 2019. The subscription price was fully paid in 2018.

- SMNCI

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in Norther Cement Corporation (NCC) comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 11). Prior to the sale, SMEII and NCC held 70% and 30% ownership interests in SMNCI, respectively. With the sale by SMYPC of its investment in NCC to SMEII, the Group's effective ownership interest in SMNCI increased from 76.825% to 80.5%.

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%.

- SMHL

On July 30, 2018, the BOD and stockholders of SMHL resolved and approved to increase its authorized capital stock from US\$150 divided into 5,000,000 common shares with par value of US\$10.00 per share and 10,000,000 preferred shares with par value of US\$10.00 per share to US\$700 divided into 5,000,000 common shares with par value of US\$10.00 per share and 65,000,000 preferred shares with par value of US\$10.00 per share. The application of the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMHL was filed with the BVI Company Registry on December 14, 2018 and was approved on December 17, 2018.

On December 14, 2018, SMHL issued to the Parent Company an additional 17,800,000 preferred shares from the increase in authorized capital stock, for a total subscription price of US\$178 (P9,413) or US\$10.00 per preferred share. In 2018, the Parent Company paid US\$175 (P9,243), the balance amounting to US\$3 (P169) was paid in full in 2019.

The holders of the preferred shares have the right to receive, in priority to any payments to the holders of common shares, out of the funds of SMHL available for distribution a non-cumulative preference divided at the rate of 4% per cent per annum on the par value of the preference shares. In addition, the holders of the preferred shares shall be entitled pari passu with the holders of the common shares to any dividends or distributions which the BOD may from time to time declare.

- SMCSLC

On July 20, 2018, the BOD and stockholders of SMCSLC resolved and approved the increase in authorized capital stock from P150 divided into 15,000,000 common shares to P5,650 divided into 565,000,000 common shares, both with a par value of P10.00 per share. The Parent Company, in a Subscription Agreement executed on July 23, 2018, subscribed to 245,000,000 common shares for a total subscription price of P3,675 or P15.00 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 August 8, 2018 and was approved on December 19, 2018. The subscription price was paid in full in 2018.

- ArchEn

On June 28, 2018, the BOD and stockholders of ArchEn approved the increase in the authorized capital stock from P100 divided into 1,000,000 common shares to P300 divided into 3,000,000 common shares, both with a par value of P100.00 per common share. On the same date, the Parent Company in a Subscription Agreement, subscribed to 2,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P200 or P100.00 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 December 5, 2018 and was approved on March 15, 2019. The Parent Company initially paid P50 in 2018 while the remaining balance amounting to P150 was paid in 2019.

- 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.

- SMCACDC

On August 7, 2017, the BOD and stockholders of SMCACDC resolved and approved the increase in authorized capital stock from P1,000 divided into 10,000,000 common shares with a par value of P100.00 per share to P6,000 divided into 10,000,000 common shares with a par value of P100.00 per common share and 5,000,000 preferred shares with a par value of P1,000.00 per preferred share. Out of the increase in authorized capital stock, the Parent Company subscribed to 3,500,000 preferred shares at the subscription price of P1,000.00 per preferred share or a total subscription amount of P3,500.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 11, 2018 and was approved on January 16, 2019

The preferred shares issued by SMCACDC are nonvoting, nonconvertible, and redeemable at the sole option of SMCACDC at a price and at such time that the BOD of SMCACDC shall determine. The preferred shares are entitled to dividends as declared by the BOD of SMCACDC. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of SMCACDC, the holders of preferred stocks that are outstanding at that time shall enjoy preference in the payment. Furthermore, holders of preferred shares have no pre-emptive right to any issue or disposition of any stocks of any class of SMCACDC.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2019		December 31, 2018	
	Petron	SMFB	Petron	SMFB
Percentage of non-controlling interests	31.74%	11.24%	31.74%	11.24%
Carrying amount of non-controlling interests	P66,220	P68,938	P55,600	P62,191
Net income attributable to non-controlling interests	P3,372	P16,685	P5,902	P14,011
Other comprehensive income (loss) attributable to non-controlling interests	(P1,092)	(P315)	P256	P695
Dividends paid to non-controlling interests	P3,750	P10,067	P5,169	P7,636

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

	December 31, 2019		December 31, 2018	
	Petron	SMFB	Petron	SMFB
Current assets	P179,488	P113,107	P162,022	P107,034
Noncurrent assets	215,347	152,860	196,132	131,470
Current liabilities	(158,374)	(73,072)	(156,018)	(83,905)
Noncurrent liabilities	(144,031)	(49,714)	(115,950)	(24,484)
Net Assets	P92,430	P143,181	P86,186	P130,115
Sales	P514,362	P310,785	P557,386	P286,378
Net income	P2,303	P32,279	P7,069	P30,533
Other comprehensive income (loss)	(3,048)	(538)	494	1,412
Total Comprehensive Income (Loss)	(P745)	P31,741	P7,563	P31,945
Cash flows provided by operating activities	P25,362	P42,574	P5,047	P36,827
Cash flows used in investing activities	(20,467)	(28,184)	(11,141)	(26,013)
Cash flows provided by (used in) financing activities	13,116	(16,994)	5,949	(7,378)
Effect of exchange rate changes on cash and cash equivalents	(1,199)	(370)	536	449
Net increase (decrease) in cash and cash equivalents	P16,812	(P2,974)	P391	P3,885

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, (ii) the production and sale of feeds, (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats, and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

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. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. 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			Others			Eliminations			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Sales																								
External sales	P310,482	P286,205	P251,487	P25,327	P24,674	P23,192	P131,580	P116,933	P80,256	P508,700	P551,285	P431,720	P23,399	P24,530	P22,497	P21,014	P21,316	P16,934	P -	P -	P -	P1,020,502	P1,024,943	P826,086
Inter-segment sales	303	173	102	12,547	12,651	8,907	3,480	3,170	2,535	5,662	6,101	2,904	7	-	-	19,873	17,252	20,055	(41,872)	(39,347)	(34,503)	-	-	-
Total sales	P310,785	P286,378	P251,589	P37,874	P37,325	P32,099	P135,060	P120,103	P82,791	P514,362	P557,386	P434,624	P23,406	P24,530	P22,497	P40,887	P38,568	P36,989	(P41,872)	(P39,347)	(P34,503)	P1,020,502	P1,024,943	P826,086
Result																								
Segment result	P47,781	P45,950	P42,401	P3,598	P3,311	P2,994	P35,954	P33,174	P24,276	P16,101	P22,434	P29,463	P11,444	P11,828	P10,440	P991	P2,078	P2,042	(P154)	(P1,690)	(P574)	P115,715	P117,085	P111,042
Interest expense and other financing charges																						(56,019)	(45,496)	(35,714)
Interest income																						10,675	7,192	4,525
Equity in net earnings (losses) of associates and joint ventures																						105	(289)	297
Gain (loss) on sale of investments and property and equipment																						(237)	252	879
Other income (charges) - net																						6,848	(5,628)	154
Income tax expense																						(28,513)	(24,468)	(26,369)
Net Income																						P48,574	P48,648	P54,814
Attributable to:																								
Equity holders of the Parent Company																						P21,329	P23,077	P28,225
Non-controlling interests																						27,245	25,571	26,589
Net Income																						P48,574	P48,648	P54,814
Other Information																								
Segment assets	P224,862	P197,133	P163,679	P58,436	P51,122	P39,934	P475,143	P410,755	P332,344	P385,838	P348,996	P329,170	P230,375	P213,096	P190,186	P308,290	P308,442	P260,613	(P109,714)	(P97,177)	(P93,487)	P1,573,230	P1,432,367	P1,222,439
Investments in and advances to associates and joint ventures	58	280	346	-	-	4,418	11,001	12,148	16,621	12	10	11	3,968	745	745	37,822	37,336	13,396	-	-	-	52,861	50,519	35,537
Goodwill and trademarks and brand names																						130,777	131,560	60,829
Other assets																						42,814	42,947	42,426
Deferred tax assets																						18,052	19,249	18,412
Consolidated Total Assets																						P1,817,734	P1,676,642	P1,379,643

Forward

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Segment liabilities	P50,773	P44,373	P35,992	P10,343	P11,207	P10,107	P28,129	P23,700	P25,633	P71,831	P57,989	P56,790	P45,193	P47,349	P45,377	P81,903	P72,473	P74,667	(P93,459)	(P86,435)	(P88,765)	P194,713	P170,656	P159,801
Loans payable																						169,492	184,024	149,863
Long-term debt																						682,804	617,615	399,492
Lease liabilities																						142,248	142,066	154,897
Income and other taxes payable																						21,185	19,901	16,653
Dividends payable and others																						7,632	7,534	7,201
Deferred tax liabilities																						25,265	22,899	20,674
Consolidated Total Liabilities																						P1,243,339	P1,164,695	P908,581
Capital expenditures (Note 13)	P18,163	P13,999	P12,614	P5,207	P6,303	P1,974	P10,108	P6,056	P9,065	P19,769	P10,416	P9,699	P598	P601	P445	P12,960	P9,948	P4,896	P -	P -	P -	P66,805	P47,323	P38,693
Depreciation and amortization of property, plant and equipment																								
(Notes 13 and 28)	3,621	3,037	2,758	1,960	1,816	1,661	4,587	9,189	5,949	10,328	9,893	9,961	371	265	205	2,794	2,373	2,207	-	-	-	23,661	26,573	22,741
Noncash items other than depreciation and amortization of property, plant and equipment	5,387	6,662	4,894	691	(806)	226	2,224	6,011	547	180	4,279	381	5,219	4,706	5,001	(3,700)	2,740	(409)	-	-	-	10,001	23,592	10,640
Loss on impairment of property, plant and equipment, and other noncurrent assets	1,015	655	534	241	37	19	35	70	-	282	-	-	-	-	-	-	(257)	57	-	-	-	1,573	505	610

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			Others			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Timing of Revenue Recognition																					
Sales recognized at point in time	P310,410	P286,094	P251,394	P24,570	P23,972	P22,489	P -	P -	P -	P508,700	P551,285	P431,720	P -	P -	P -	P16,659	P16,720	P13,578	P860,339	P878,071	P719,181
Sales recognized over time	72	111	93	757	702	703	131,580	116,933	80,256	-	-	-	23,399	24,530	22,497	4,355	4,596	3,356	160,163	146,872	106,905
Total External Sales	P310,482	P286,205	P251,487	P25,327	P24,674	P23,192	P131,580	P116,933	P80,256	P508,700	P551,285	P431,720	P23,399	P24,530	P22,497	P21,014	P21,316	P16,934	P1,020,502	P1,024,943	P826,086

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2019	2018
Cash in banks and on hand		P72,880	P38,716
Short-term investments		213,577	204,434
	4, 40, 41	P286,457	P243,150

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

8. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2019	2018
Trade		P86,794	P76,494
Non-trade		47,205	50,257
Amounts owed by related parties	33, 35	15,177	16,338
		149,176	143,089
Less allowance for impairment losses	4, 5	12,688	13,196
	4, 40, 41	P136,488	P129,893

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 44).

Amounts owed by related parties include trade receivables amounting to P1,239 and P965 as at December 31, 2019 and 2018, respectively.

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

	<i>Note</i>	2019	2018
Balance at beginning of year		P13,196	P12,787
Charges for the year	27, 32	323	353
Amounts written off	4	(577)	(474)
Translation adjustments and others		(254)	530
Balance at end of year		P12,688	P13,196

9. Inventories

Inventories consist of:

	<i>Note</i>	2019	2018
At net realizable value:			
Finished goods and goods in process (including petroleum products)		P85,158	P77,231
Materials and supplies (including coal)		38,040	37,635
At cost:			
Raw land inventory and real estate projects		4,265	4,080
	4	P127,463	P118,946

The cost of finished goods and goods in process amounted to P86,162 and P78,371 as at December 31, 2019 and 2018, 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 P1,374 and decreased by P942 as at December 31, 2019 and 2018, respectively.

The cost of materials and supplies amounted to P38,975 and P38,663 as at December 31, 2019 and 2018, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P130 and P128 as at December 31, 2019 and 2018, respectively, with corresponding costs at point of harvest amounting to P104 and P135, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to P26, (P7) and P37 in 2019, 2018 and 2017, 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, 2019 and 2018, based on management's assessment.

The fair value of raw land inventory amounted to P10,740 and P10,218 as at December 31, 2019 and 2018, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2019	2018
Prepaid taxes and licenses		P72,386	P74,414
Restricted cash - current	40, 41	6,256	9,038
Advances to contractors and suppliers	33	1,782	1,700
Derivative assets	40, 41	917	1,174
Prepaid insurance		786	664
Prepaid rent		315	719
Catalyst		304	159
Financial assets at FVPL	40, 41	284	254
Financial assets at amortized cost - current portion	4, 12, 40, 41	71	40
Financial assets at FVOCI - current portion	4, 12, 40, 41	38	54
Others	34	3,446	3,827
		P86,585	P92,043

Restricted cash - current represents: (i) cash in banks maintained by Vertex, PIDC, 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) Cash Flow Waterfall accounts of SCPC, SMCP and MPPCL, maintained with a local Trust Company as required in its respective credit facilities.

"Others" consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM (Note 34) 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 41.

11. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2019	2018
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P22,319	P21,242
Additions		1,266	1,077
Reclassification from investment in shares of stock of subsidiaries	5	1,310	-
Reclassification to investment in shares of stock of subsidiaries		(965)	-
Balance at end of year		23,930	22,319
Accumulated Equity in Net Earnings			
Balance at beginning of year		563	866
Reclassification from investment in shares of stock of subsidiaries	5	1,300	-
Equity in net earnings (losses)		105	(289)
Reclassification to investment in shares of stock of subsidiaries		10	-
Share in other comprehensive income (loss)		(25)	2
Dividends		-	(16)
Balance at end of year		1,953	563
		25,883	22,882
Advances		26,978	27,637
	4	P52,861	P50,519

Investments in Shares of Stock of Associates

a. NCC

In 2017, SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in NCC comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 5).

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.

b. Bank of Commerce (BOC)

SMC through SMPI has 39.93% equity ownership interest in BOC representing 44,817,164 common shares. BOC is engaged in commercial banking services.

On December 17, 2018, SMC through SMC Equivest, in a Deed of Absolute Sale of Shares, acquired 5,258,956 common shares of BOC representing 4.69% ownership interest for a total consideration of P1,077.

c. MPGC

On January 25, 2019, SMC Global subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing SMC Global's ownership interest in MPGC from 49% to 73.58%. SMC Global then 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 September 6, 2019, when the increase of the authorized capital stock of MPGC was approved by the Philippine SEC on the same date. 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 initially on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, Angat Hydro made partial payments of the foregoing advances plus interest totaling US\$20 to PVEI.

On March 1 and October 16, 2018, PVEI collected partial payouts totaling US\$10 from Angat Hydro. Payment date of the remaining balance of the advances amounting to US\$2 was extended to December 31, 2020.

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 (Note 5).

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

- a. SMPI made advances to future investees amounting to P873 and P870 as at December 31, 2019 and 2018, 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 P5,161 and P4,963 as at December 31, 2019 and 2018, 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, 2019 and 2018, outstanding investment advances amounted to P19,805 and P19,784, 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, 2019							December 31, 2018					
	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others	Total		Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Philippines				Philippines	Philippines	Philippines	Philippines		
Percentage of ownership	60.00%	35.00%	44.62%	50.00%				60.00%	35.00%	44.62%	49.00%		
Share in net income (loss)	(P410)	P171	P304	P212	(P172)	P105		(P481)	P203	P20	P -	(P31)	(P289)
Share in other comprehensive income (loss)	-	(13)	(28)	-	16	(25)		-	(4)	(12)	-	18	2
Share in total comprehensive income (loss)	(P410)	P158	P276	P212	(P156)	P80		(P481)	P199	P8	P -	(P13)	(P287)
Dividends received	P -	P -	P -	P -	P -	P -		P -	P -	P -	P -	P16	P16
Carrying amount of investments in shares of stock of associates and joint ventures	P5,634	P4,775	P10,673	P3,873	P928	P25,883		P6,044	P4,617	P10,397	P954	P870	P22,882

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, 2019						December 31, 2018				
	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others		Angat Hydro and KWPP	NCC	BOC	MPGC	Others
Current assets	P2,627	P2,427	P68,430	P1,488	P5,629		P2,886	P2,597	P76,946	P18	P4,775
Noncurrent assets	17,558	8,949	76,603	11,127	2,897		18,075	8,654	76,997	1,961	2,514
Current liabilities	(1,279)	(1,274)	(126,284)	(4,382)	(4,936)		(1,061)	(1,876)	(133,577)	(32)	(4,130)
Noncurrent liabilities	(11,685)	(1,016)	(2,654)	(2,725)	(614)		(11,996)	(925)	(2,386)	-	(734)
Net assets	P7,221	P9,086	P16,095	P5,508	P2,976		P7,904	P8,450	P17,980	P1,947	P2,425
Sales	P1,588	P8,165	P6,532	P4,170	P4,348		P1,575	P8,455	P5,218	P -	P4,227
Net income (loss)	(P683)	P679	P653	P658	P108		(P751)	P761	P50	P1	P209
Other comprehensive income (loss)	-	(36)	(65)	(2)	(21)		-	(11)	(30)	-	43
Total comprehensive income (loss)	(P683)	P643	P588	P656	P87		(P751)	P750	P20	P1	P252

12. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	<i>Note</i>	2019	2018
Equity securities		P41,305	P41,407
Proprietary membership shares and others		439	381
Government and other debt securities		420	432
	4, 40, 41	42,164	42,220
Less current portion	10	109	94
		P42,055	P42,126

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 P35,954 and P36,057 as at December 31, 2019 and 2018, 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 4.25% to 7.02% in 2019 and 3.88% to 7.02% in 2018 (Note 31).

The movements in investments in equity and debt instruments are as follows:

	<i>Note</i>	2019	2018
Balance at beginning of year		P42,220	P42,268
Additions		71	54
Disposals		(94)	(203)
Fair value gain (loss)		(33)	37
Amortization of premium		-	(2)
Acquisition of subsidiaries		-	55
Currency translation adjustments and others		-	11
Balance at end of year	4, 10, 40, 41	P42,164	P42,220

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Note 41.

The investments in equity and debt instruments are classified as follows:

	2019	2018
Noncurrent		
Financial assets at FVOCI	P41,869	P41,940
Financial assets at amortized cost	186	186
	42,055	42,126
Current		
Financial assets at FVOCI	38	54
Financial assets at amortized cost	71	40
	109	94
	P42,164	P42,220

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2018		P35,935	P50,635	P268,318	P167,417	P17,440	P136,160	P3,677	P69,102	P748,684
Additions		1,699	481	67	426	424	5,193	71	38,962	47,323
Acquisition of subsidiaries	38	906	975	53,226	-	156	2,382	37	23,484	81,166
Disposals/retirement		(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	(2)	(2,728)
Reclassifications	15	(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	(46,469)	(22,571)
Currency translation adjustments		302	534	408	370	246	683	(9)	221	2,755
December 31, 2018 (Audited)		29,580	42,916	350,924	169,973	17,968	152,469	5,501	85,298	854,629
Adjustments due to adoption of PFRS 16	3	(482)	(4)	(214,358)	(1,816)	(176)	(915)	-	(8)	(217,759)
December 31, 2018 (as adjusted)		29,098	42,912	136,566	168,157	17,792	151,554	5,501	85,290	636,870
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)	(2,818)	(35)	(316)	(3,799)
Reclassifications	15	4,105	7,068	(11,426)	223	432	14,773	1,310	(38,800)	(22,315)
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
Accumulated Depreciation and Amortization										
January 1, 2018		3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	6, 28	176	1,214	9,995	6,308	1,141	7,465	274	-	26,573
Acquisition of subsidiaries	38	-	75	17,973	-	31	732	32	-	18,843
Disposals/retirement		(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	-	(2,390)
Reclassifications		(1,034)	(7,828)	-	-	(246)	(349)	(12)	-	(9,469)
Currency translation adjustments		13	234	126	257	126	358	(2)	-	1,112
December 31, 2018 (Audited)		2,760	16,116	71,665	51,639	12,602	91,042	1,528	-	247,352
Adjustments due to adoption of PFRS 16	3	-	(2)	(46,938)	(193)	(63)	(450)	(108)	-	(47,754)
December 31, 2018 (as adjusted)		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)	(2,602)	(21)	-	(3,151)
Reclassifications		(20)	59	(17,794)	1	(166)	(3,060)	(86)	-	(21,066)
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
Accumulated Impairment Losses										
January 1, 2018		266	2,703	-	-	-	9,418	28	-	12,415
Impairment		-	454	-	-	-	163	-	-	617
Disposals/retirement		-	-	-	-	-	(13)	-	-	(13)
Reclassifications		(266)	(16)	-	-	-	26	-	-	(256)
Currency translation adjustments		-	(2)	-	-	-	145	(1)	-	142
December 31, 2018 (Audited)		-	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
Carrying Amount										
December 31, 2018		P26,820	P23,661	P279,259	P118,334	P5,366	P51,688	P3,946	P85,298	P594,372
December 31, 2019		P33,674	P30,485	P111,825	P116,468	P6,405	P66,006	P5,312	P93,439	P463,614

“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 P24,537, P27,190 and P23,275 in 2019, 2018 and 2017, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P562, P542 and P492 in 2019, 2018 and 2017, respectively.

The Group has interest amounting to P3,103 and P2,003 which was capitalized in 2019 and 2018, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 5.74% to 9.09% and 2.29% to 7.99% in 2019 and 2018, respectively. The unamortized capitalized borrowing costs amounted to P16,700 and P14,159 as at December 31, 2019 and 2018, respectively.

The combined carrying amounts of power plants, land and equipment classified as finance lease under PAS 17 amounted to P168,404 as at December 31, 2018. (Notes 4 and 34).

14. Right-of-Use Assets

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

	<i>Note</i>	Land	Buildings and Improvements	Power Plants	Service Stations and Other Equipment	Machinery and Equipment	Total
Cost							
Adjustment due to adoption of PFRS 16	3	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
Accumulated Depreciation and Amortization							
Adjustment due to adoption of PFRS 16	3	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
Accumulated Impairment Losses							
Adjustment due to adoption of PFRS 16	3	82	-	-	-	-	82
Acquisition of subsidiary	38	29	-	-	-	-	29
Currency translation adjustments		(1)	-	-	-	-	(1)
December 31, 2019		110	-	-	-	-	110
Carrying Amount							
December 31, 2019		P10,596	P391	P162,201	P21	P395	P173,604

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 P8,734 in 2019 (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 P731, P3 and P2,727, respectively, in 2019.

The Group had total cash outflows for leases of P32,335 in 2019.

15. Investment Property

The movements in investment property are as follows:

	Note	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Right-of-Use Asset	Total
Cost							
January 1, 2018		P6,498	P1,100	P422	P260	P -	P8,280
Additions		6,969	332	-	155	-	7,456
Reclassifications	13	11,717	15,369	15	(127)	-	26,974
Acquisition of subsidiary	38	90	-	-	-	-	90
Disposals		(3)	-	-	-	-	(3)
Currency translation adjustments		-	36	-	-	-	36
December 31, 2018 (Audited)		25,271	16,837	437	288	-	42,833
Adjustment due to adoption of PFRS 16	3	-	-	-	-	11,456	11,456
December 31, 2018 (as adjusted)		25,271	16,837	437	288	11,456	54,289
Additions		4,250	1,647	2	107	809	6,815
Reclassifications	13	6,187	704	-	(6)	-	6,885
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
Accumulated Depreciation and Amortization							
January 1, 2018		29	659	422	-	-	1,110
Depreciation and amortization	28	60	664	1	-	-	725
Reclassifications		1,060	8,085	1	-	-	9,146
Currency translation adjustments		-	15	-	-	-	15
December 31, 2018 (Audited)		1,149	9,423	424	-	-	10,996
Adjustment due to adoption of PFRS 16	3	-	-	-	-	288	288
December 31, 2018 (as adjusted)		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
Accumulated Impairment Losses							
December 31, 2018 and 2019		8	-	-	-	-	8
Carrying Amount							
December 31, 2018		P24,114	P7,414	P13	P288	P -	P31,829
December 31, 2019		P31,225	P9,149	P13	P389	P11,003	P51,779

In 2019, property, plant and equipment was 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).

In 2018, the Group's investment property includes land, leasehold improvements, buildings and related improvements and facilities leased out for its service stations which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 13).

No impairment loss was recognized in 2019, 2018 and 2017.

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 2019, 2018 and 2017.

The fair value of investment property amounting to P63,878 and P49,093 as at December 31, 2019 and 2018, 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 ranges from 3% to 5%.

16. Biological Assets

Biological assets consist of:

	<i>Note</i>	2019	2018
Current:			
Growing stocks		P3,448	P3,572
Goods in process		703	673
		4,151	4,245
Noncurrent:			
Breeding stocks - net		2,808	2,844
	4	P6,959	P7,089

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P3,152, P2,801 and P2,161 in 2019, 2018 and 2017, 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>	2019	2018
Cost			
Balance at beginning of year		P8,636	P7,549
Increase (decrease) due to:			
Production		50,954	47,501
Purchases		471	901
Mortality		(827)	(613)
Harvest		(47,344)	(43,947)
Retirement		(3,379)	(2,755)
Balance at end of year		8,511	8,636
Accumulated Amortization			
Balance at beginning of year		1,547	1,432
Amortization	28	3,152	2,801
Retirement		(3,147)	(2,686)
Balance at end of year		1,552	1,547
Carrying Amount		P6,959	P7,089

The Group harvested approximately 609.5 million and 582.5 million kilograms of grown broilers in 2019 and 2018, respectively, and 0.49 million and 0.40 million heads of marketable hogs and cattle in 2019 and 2018, 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 P57,255 and P42,116 in 2019 and 2018, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2019	2018
Goodwill	P130,073	P130,852
Other intangible assets	149,014	146,608
	P279,087	P277,460

The movements in goodwill are as follows:

	Note	2019	2018
Balance at beginning of year		P130,852	P60,124
Additions	4, 5, 38	53	70,384
Deconsolidation of a subsidiary	5	(325)	-
Cumulative translation adjustments and others		(507)	344
Balance at end of year	4	P130,073	P130,852

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2018	P2,012	P936	P2,948
Currency translation adjustments	123	26	149
December 31, 2018	2,135	962	3,097
Currency translation adjustments	76	(13)	63
December 31, 2019	2,211	949	3,160
Accumulated Impairment Losses			
January 1, 2018	-	231	231
Currency translation adjustments	-	23	23
December 31, 2018	-	254	254
Currency translation adjustments	-	(9)	(9)
December 31, 2019	-	245	245
Carrying Amount			
December 31, 2018	P2,135	P708	P2,843
December 31, 2019	P2,211	P704	P2,915

The movements in other intangible assets with finite useful lives are as follows:

		Concession Rights					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
	Note	Toll Road	Airport	Power	Port	Water				
Cost										
January 1, 2018		P131,899	P6,236	P894	P13,761	P2,938	P2,533	P1,734	P3,684	P163,679
Additions		10,145	504	140	98	3,581	51	-	650	15,169
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	89	89
Disposals and reclassifications		2,005	296	-	(21)	-	-	-	(5)	2,275
Currency translation adjustments		-	-	-	-	-	64	-	21	85
December 31, 2018 (Audited)		144,049	7,036	1,034	13,838	6,519	2,648	1,734	4,439	181,297
Adjustment due to adoption of PFRS 16	3	-	-	-	-	-	(1,916)	-	-	(1,916)
December 31, 2018 (as adjusted)		144,049	7,036	1,034	13,838	6,519	732	1,734	4,439	179,381
Additions		13,805	1,664	206	73	449	1	-	1,807	18,005
Acquisition of subsidiaries	38	-	-	-	-	-	8	25	2	35
Disposals and reclassifications		3,018	320	-	(13,911)	(81)	(730)	-	(908)	(12,292)
Currency translation adjustments		-	-	-	-	-	(11)	-	(27)	(38)
December 31, 2019		160,872	9,020	1,240	-	6,887	-	1,759	5,313	185,091
Accumulated Amortization										
January 1, 2018		26,396	372	112	1,716	-	891	-	2,471	31,958
Amortization	28	3,976	325	41	742	-	65	-	331	5,480
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	9	9
Disposals and reclassifications		-	-	-	2	-	-	-	43	45
Currency translation adjustments		-	-	-	-	-	21	-	19	40
December 31, 2018 (Audited)		30,372	697	153	2,460	-	977	-	2,873	37,532
Adjustment due to adoption of PFRS 16	3	-	-	-	-	-	(802)	-	-	(802)
December 31, 2018 (as adjusted)		30,372	697	153	2,460	-	175	-	2,873	36,730
Amortization	28	3,986	342	78	233	206	22	-	181	5,048
Acquisition of subsidiaries	38	-	-	-	-	-	4	23	-	27
Disposals and reclassifications		-	-	-	(2,693)	-	(197)	-	103	(2,787)
Currency translation adjustments		-	-	-	-	-	(4)	-	(22)	(26)
December 31, 2019		34,358	1,039	231	-	206	-	23	3,135	38,992
Carrying Amount										
December 31, 2018		P113,677	P6,339	P881	P11,378	P6,519	P1,671	P1,734	P1,566	P143,765
December 31, 2019		P126,514	P7,981	P1,009	P-	P6,681	P -	P1,736	P2,178	P146,099

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:

	2019		2018	
	Goodwill	Licenses, Trademarks and Brand Names	Goodwill	Licenses, Trademarks and Brand Names
Energy	P69,944	P -	P69,944	P -
Fuel and oil	30,345	-	30,882	-
Infrastructure	21,950	-	21,950	-
Packaging	4,121	-	4,376	-
Food and Beverage	3,639	2,915	3,639	2,843
Others	74	-	61	-
Total	P130,073	P2,915	P130,852	P2,843

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 0.5% to 5% and 0.3% to 5% in 2019 and 2018, 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 2019 and 2018. 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 2019, 2018 and 2017.

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 4% in 2019 and 2018 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 2019 and 2018. 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 2019, 2018 and 2017.

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>	2019	2018
Noncurrent receivables and deposits - net	4, 33, 34, 40, 41	P28,784	P21,158
Advances to contractors and suppliers		20,589	8,820
Deferred containers - net	4	20,125	17,607
Restricted cash	40, 41	6,167	4,967
Deposits on land for future development		3,619	2,134
Noncurrent prepaid input tax		3,157	3,894
Retirement assets	35	2,496	2,838
Deferred financing costs		1,986	-
Idle assets	4	1,279	1,157
Deferred exploration and development costs	4	711	705
Catalyst		683	437
Noncurrent prepaid rent		295	3,122
Derivative assets - noncurrent	3, 40, 41	241	371
Others		2,598	2,756
		P92,730	P69,966

The movements in the deferred containers are as follows:

	<i>Note</i>	2019	2018
Gross Carrying Amount			
Balance at beginning of year		P28,948	P23,629
Additions		5,672	6,422
Disposals/retirement/reclassifications		(2,265)	(1,104)
Currency translation adjustments		(23)	1
Balance at end of year		32,332	28,948
Accumulated Amortization			
Balance at beginning of year		10,762	10,055
Amortization	28	2,309	2,077
Disposals/retirement/reclassifications		(1,525)	(1,376)
Currency translation adjustments		(20)	6
Balance at end of year		11,526	10,762
Accumulated Impairment			
Balance at beginning of year		579	412
Additions	27, 32	682	568
Disposals/reclassifications		(580)	(401)
Balance at end of year		681	579
		P20,125	P17,607

Noncurrent receivables and deposits include amounts owed by related parties amounting to P4,005 and P2,858 as at December 31, 2019 and 2018, respectively (Note 33) and the costs related to the development of the MRT 7 Project amounting to P21,291 and P14,723 as at December 31, 2019 and 2018, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P724 and P493 as at December 31, 2019 and 2018, respectively.

Restricted cash represents:

- i. SCPC's Cash Flow Waterfall accounts (Trust Fund) with a local Trust Company, as required in its Omnibus Loan and Security Agreement (OLSA), amounting to P1,131 and P1,448 as at December 31, 2019 and 2018, respectively.
- ii. The amount received from Independent Electricity Market Operator of the Philippines (IEMOP), totaling P491 as at December 31, 2019 and 2018, 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 P159 and P255 as at December 31, 2019 and 2018, respectively.
- iv. MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its Omnibus Expansion Financing Agreement (OEFA) and Omnibus Refinancing Agreement (ORA), totaling to P3,773 and P2,249 as at December 31, 2019 and 2018, 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 P629 and P5,745 as at December 31, 2019 and 2018, respectively, of which P16 and P5,221 as at December 31, 2019 and 2018, respectively are included as part of "Prepaid expenses and other current assets" account under "Restricted cash - current" (Note 10).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

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 are recognized as deferred financing costs as at December 31, 2019 (Note 21).

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	<i>Note</i>	2019	2018
Parent Company			
Peso-denominated		P44,750	P24,800
Foreign currency-denominated		-	9,464
Subsidiaries			
Peso-denominated		120,239	122,650
Foreign currency-denominated		4,503	27,110
	38, 40, 41	P169,492	P184,024

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 3.70% to 8.50% and 2.50% to 7.75% in 2019 and 2018, respectively. Interest rates for foreign currency-denominated loans ranged from 2.30% to 9.10% and 2.85% to 9.90% in 2019 and 2018, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P11,798 and P8,568 as at December 31, 2019 and 2018, respectively (Note 33).

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	2019	2018
Trade	34	P100,382	P70,070
Non-trade		51,488	55,249
Customers' deposit	3	8,168	7,086
Accrued payroll		5,094	4,970
Accrued interest payable		4,067	4,042
Amounts owed to related parties	33	2,872	2,777
Derivative liabilities	40, 41	1,678	1,929
Retention payable		968	1,117
Deferred liability on consumer loyalty program		867	1,183
Current portion of IRO	4	187	212
Retirement liabilities	35	154	128
Deferred rent income		54	839
Others		58	162
	40, 41	P176,037	P149,764

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.

"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 41.

21. Long-term Debt

Long-term debt consists of:

	2019	2018
Parent Company		
Peso-denominated bonds:		
Fixed interest rate of 4.8243% and 5.1923%, 6.2500%, 5.2840% and 5.5500%, 6.6250%, 5.7613%, and 7.125%, maturing in 2022, 2023, 2024, 2025, 2027 and 2028, respectively (a)	P59,500	P49,525
Peso-denominated term notes:		
Fixed interest rate of 6.9375% with maturities up to 2026 (b)	15,807	-
Fixed interest rate of 5.25% maturing in 2020 (c)	9,975	9,916
Foreign currency-denominated term notes:		
Fixed interest rate of 4.875% maturing in 2023 (d)	26,019	26,989
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2023 (e)	19,943	20,632
Floating interest rate based on LIBOR plus margin, with various maturities up to 2024 (f)	15,070	15,603
Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)	14,989	15,520
Floating interest rate based on LIBOR plus margin, maturing in 2023 (h)	14,972	15,502
Floating interest rate based on LIBOR plus margin, maturing in 2023 (i)	9,981	10,336
Floating interest rate based on LIBOR plus margin, maturing in 2024 (j)	2,364	-
Floating interest rate based on LIBOR plus margin (k)	-	5,258
Floating interest rate based on LIBOR plus margin (l)	-	5,252
	188,620	174,533
Subsidiaries		
Peso-denominated bonds:		
Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (m)	39,705	39,638
Fixed interest rate of 5.3750%, 6.7500%, 6.2500% and 6.6250% maturing in 2022, 2023, 2024 and 2027, respectively (n)	34,699	34,636
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (o)	29,669	-
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (p)	14,962	14,939

Forward

	2019	2018
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (q)	P14,914	P14,889
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (r)	7,265	7,242
Fixed interest rate of 5.93% and 6.60% maturing in 2019 and 2022, respectively (s)	6,979	16,967
Fixed interest rate of 10.50% (t)	-	2,809
Peso-denominated term notes:		
Fixed interest rate of 6.2836% to 7.3889% with maturities up to 2029 (u)	41,274	42,247
Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (v)	30,676	29,642
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (w)	19,669	20,060
Fixed interest rate of 5.9970% with maturities up to 2029 (x)	16,720	-
Fixed interest rate of 6.9265% with maturities up to 2024 (y)	14,597	14,726
Fixed interest rate of 5.6276% with maturities up to 2029 (z)	11,910	-
Fixed interest rate of 5.5276% with maturities up to 2024 (aa)	10,136	12,259
Fixed interest rate of 4.63% maturing in 2024 (bb)	9,925	-
Fixed interest rate of 5.7584% with maturities up to 2022 (cc)	7,479	9,965
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (dd)	5,779	6,465
Fixed interest rate of 8.4211% to 9.885% with maturities up to 2030 (ee)	4,143	4,159
Fixed interest rate of 5.4583% with maturities up to 2022 (ff)	2,995	3,991
Fixed interest rate of 6.6583% with maturities up to 2023 (gg)	1,810	2,264
Fixed interest rate of 5.00% with maturities up to 2021 (hh)	1,498	1,496
Fixed interest rate of 8.348% with maturities up to 2023 (ii)	877	993
Fixed interest rate of 8.6615% with maturities up to 2020 (jj)	391	2,307
Fixed interest rate of 6.52% and 6.7394% (kk)	-	11,245
Fixed interest rate of 6.50% (ll)	-	10,368
Fixed interest rate of 6.3212% and 7.1827% (mm)	-	2,696
Fixed interest rate of 5.65% (nn)	-	450

Forward

	<i>Note</i>	2019	2018
Floating interest rate based on Bloomberg Valuation (BVAL) plus margin, or <i>Bangko Sentral ng Pilipinas</i> (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2029 (oo)		P9,925	P -
Floating interest rate based on BVAL plus margin, or BSP overnight rate plus margin, whichever is higher, with maturities up to 2023 (pp)		3,740	3,259
Floating interest rate based on BVAL plus margin, with maturities up to 2022 (qq)		2,356	2,721
Floating interest rate based on BVAL plus margin, with maturities up to 2026 (rr)		1,985	-
Floating interest rate based on BVAL plus margin, with maturities up to 2024 (ss)		547	-
Floating interest rate based on BVAL plus margin or BSP overnight rate plus margin, whichever is higher (tt)		-	625
Floating interest rate based on BVAL plus margin, or 5.75%, whichever is higher (uu)		-	166
Foreign currency-denominated Term Notes:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (vv)		27,835	27,504
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (ww)		39,908	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2021 and 2023 (xx)		34,924	43,800
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (yy)		32,854	49,451
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (zz)		9,218	9,103
Floating interest rate based on Bank Bill Swap Rate (BBSY) plus margin, with maturities up to 2024 (aaa)		2,792	-
Floating interest rate based on Cost of Fund (COF) plus margin, with various maturities up to 2027 (bbb)		28	-
		494,184	443,082
	38, 40, 41	682,804	617,615
Less current maturities		43,808	55,697
		P638,996	P561,918

- a. The amount represents the first, second, third and fourth tranche of the P60,000 shelf registered fixed rate bonds (the “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 5.2840% 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 6.2500% per annum; (ii) seven-year Series F Bonds, due in 2025 with an interest rate of 6.6250% per annum; and, (iii) 10-year Series G Bonds, due in 2028 with an interest rate of 7.1250% 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 5.5500% 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 P500 and P475 as at December 31, 2019 and 2018, 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.

In 2019, the Parent Company made payments amounting to P80.

Unamortized debt issue costs amounted to P113 as at December 31, 2019.

- c. The amount represents P10,000 Fixed-Rate Notes (the “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.

Unamortized debt issue costs amounted to P25 and P84 as at December 31, 2019 and 2018, respectively.

- 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 P128 and P162 as at December 31, 2019 and 2018, respectively.

- e. 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 Redeemable Perpetual Securities to partially finance the acquisition of Masinloc Group of Companies.

Unamortized debt issue costs amounted to P311 and P400 as at December 31, 2019 and 2018, respectively.

- f. 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.

Unamortized debt issue costs amounted to P120 and P171 as at December 31, 2019 and 2018, 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 P201 and P254 as at December 31, 2019 and 2018, 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 P219 and P272 as at December 31, 2019 and 2018, respectively.

- i. 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 P146 and P180 as at December 31, 2019 and 2018, respectively.

- j. The amount represents the drawdown by the Parent Company on December 27, 2019 of US\$50 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 P168 as at December 31, 2019.

- k. The amount represents the drawdown by the Parent Company on November 21, 2017 from its medium-term loan revolving facility agreement dated November 6, 2016, as amended, amounting to US\$100, subject to floating interest rate. The proceeds were used to partially repay existing indebtedness.

The Parent Company paid the loan on May 6, 2019.

- l. The amount represents the drawdown on various dates, of US\$580 medium-term loans from facility agreements entered into by the Parent Company on various dates in 2016 to partially refinance existing loans.

On various dates in 2018, the Parent Company paid US\$480 as partial settlement of the loan principal and fully paid the remaining balance of US\$100 on May 6, 2019.

Unamortized debt issue costs amounted to P6 as at December 31, 2018.

- m. 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 (Note 5) and for general corporate purposes.

Unamortized debt issue costs amounted to P295 and P362 as at December 31, 2019 and 2018, respectively.

- n. 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 advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P301 and P364 as at December 31, 2019 and 2018, respectively.

- o. 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 on the same date.

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 payment of maturing long-term debt and short-term loan, in investments in power-related assets and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P331 as at December 31, 2019.

- p. 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 on April 2, 2014.

Unamortized debt issue costs amounted to P39 and P61 as at December 31, 2019 and 2018, respectively.

- q. 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 on July 11, 2016.

Unamortized debt issue costs amounted to P86 and P111 as at December 31, 2019 and 2018, 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 on May 22, 2015.

Unamortized debt issue costs amounted to P35 and P58 as at December 31, 2019 and 2018, respectively.

- s. 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 on April 2, 2012.

The Series E Bonds with an aggregate principal of P10,000 matured and redeemed by SMB on April 12, 2019.

Unamortized debt issue costs amounted to P20 and P33 as at December 31, 2019 and 2018, respectively.

- t. The amount represents P2,810 Series C fixed rate bonds (the “Bonds”) issued by SMB on April 3, 2009 with an interest rate of 10.50% per annum. The Series C Bonds was part of the P38,800 fixed rate bonds of SMB. Interest is payable every 3rd of April and October of each year.

The proceeds from the issuance were used to finance acquisition of the interest of the Parent Company in IBI and BPI.

The Bonds were listed on the PDEX on November 17, 2009.

The Series C Bonds with an aggregate principal of P2,810 matured and redeemed by SMB on April 3, 2019.

Unamortized debt issue costs amounted to P1 as at December 31, 2018.

- u. 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 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 LPPC, also a wholly-owned subsidiary of SMC Global, 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 P2,100 and P1,050 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P626 and P703 as at December 31, 2019 and 2018, respectively.

- v. The amount represents the P31,000 and P30,000 loan drawn by CCEC as at December 31, 2019 and 2018, respectively, 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 commencing on the period ending the earlier of 55 months from initial drawdown date or 3 months after the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 12 years after initial drawdown date.

The loan is subject to repricing on the seventh year from date of initial drawdown.

The drawdown includes payable to BOC amounting to P3,700 and P3,581 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P324 and P358 as at December 31, 2019 and 2018, respectively.

- w. The amount represents the remaining balance of the P20,322 and P978 drawn by SMCPD in tranches on August 17, 2018 and July 31, 2019, respectively, 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 P1,296 as at December 31, 2019.

The drawdown includes payable to BOC amounting to P3,005 and P3,053 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P335 and P262 as at December 31, 2019 and 2018, respectively.

- x. The amount represents the drawdown by AAIPC on December 16, 2019 amounting to P17,300 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 and general corporate requirements and finance transaction related fees, taxes and expenses. The loan is payable in 39 quarterly installments commencing on the 3rd 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.

Unamortized debt issue costs amounted to P580 as at December 31, 2019.

- y. 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 the payment of the remaining US\$300 out of the US\$700 five-year term loan drawn in 2013.

Payments made amounted to P300 and P150 pursuant to the loan agreement as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P103 and P124 as at December 31, 2019 and 2018, respectively.

- z. The amount represents the drawdown by PIDC 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 3rd 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.

Unamortized debt issue costs amounted to P90 as at December 31, 2019.

- 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 P4,821 and P2,679 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P43 and P62 as at December 31, 2019 and 2018, respectively.

- bb. The amount represents the drawdown by SMB on December 26, 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% payable quarterly. The proceeds were used for general corporate purposes.

Unamortized debt issue costs amounted to P75 as at December 31, 2019.

- 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 permanent working capital requirements.

Payments made amounted to P2,500 as at December 31, 2019.

Unamortized debt issue costs amounted to P21 and P35 as at December 31, 2019 and 2018, respectively.

- dd. The amount represents the remaining balance of the P1,100 and P6,400 loans drawn by Vertex 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 P1,552 and P1,738 as at December 31, 2019 and 2018, respectively (Note 33).

Payments made amounted to P1,681 and P982 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P40 and P53 as at December 31, 2019 and 2018, respectively.

- 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 P21 as at December 31, 2019.

Unamortized debt issue costs amounted to P36 and P41 as at December 31, 2019 and 2018, 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 P2,000 and P1,000 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P5 and P9 as at December 31, 2019 and 2018 respectively.

- gg. 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 P1,682 and P1,223 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P8 and P13 as at December 31, 2019 and 2018, 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 P2 and P4 as at December 31, 2019 and 2018, respectively.

- ii. 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 carried at amortized cost and 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.

Unamortized debt issue costs amounted to P5 and P7 as at December 31, 2019 and 2018, respectively.

- jj. The amount represents the remaining balance of the P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. 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.

Payments made amounted to P11,108 and P9,177 as at December 31, 2019 and 2018, respectively.

The drawdown includes payable to BOC amounting to P59 and P353 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P1 and P16 as at December 31, 2019 and 2018, respectively.

- kk. The amount represents the balance amounting to P11,404 as at December 31, 2018 of the P14,500 and P16,700 Corporate Notes Facility Agreement entered into by AAIPC in 2013 and 2016, respectively.

Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC and S3HC.

The drawdown includes payable to BOC amounting to P441 as at December 31, 2018 (Note 33).

AAIPC fully paid the loan as at December 31, 2019.

Unamortized debt issue costs amounted to P159 as at December 31, 2018.

- II. The amount represents series of drawdowns of PIDC from the P15,140 OLSA dated June 2, 2011, as amended, to finance the design, construction, operation, maintenance and implementation of the widening of Phase 1 and Phase 2 of TPLEX. The loan is payable in 24 unequal quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

The loan is subject to repricing on the fifth year from the date of initial drawdown.

The loan was paid in full as at December 31, 2019. Payments made amounted to P4,731 as at December 31, 2018.

Unamortized debt issue costs amounted to P41 as at December 31, 2018.

- mm. The amount represents Series B Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 amounting to P2,910 with maturity of up to 10 years from the issue date and with fixed interest coupons of 7.1827% per annum. The net proceeds from the issuance were used for general corporate requirements.

The loan was paid in full as at December 31, 2019. Payments made amounted to P204 as at December 31, 2018 (Note 33).

Unamortized debt issue costs amounted to P10 as at December 31, 2018.

- nn. The amount represents the balance of the P3,000 loan facility of MNHPI with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI.

Payments made amounted to P2,550 as at December 31, 2018.

The drawdown includes payable to BOC amounting to P173 as at December 31, 2018 (Note 33).

On April 26, 2019, the balance of the loan was deconsolidated following the increase in shareholdings of non-controlling interest of MNHPI (Note 5).

- oo. The amount represents drawdown by SMFI from its P18,000 10-year term loan facility amounting P10,000 on December 12, 2019. 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 within two years. The proceeds were used to refinance its existing short-term obligations, fund capital expansion projects and for other general corporate requirements.

Unamortized debt issue costs amounted to P75 as at December 31, 2019.

pp. The amount represents the P4,000 and P3,300 drawdown by SMYAC from its P4,000 term loan facility as at December 31, 2019 and 2018, respectively. 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.

Payments made amounted to P240 and P18 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P20 and P23 as at December 31, 2019 and 2018, respectively.

qq. 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 P940 and P573 as at December 31, 2019 and 2018, respectively, as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P4 and P6 as at December 31, 2019 and 2018, respectively.

rr. 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.

Unamortized debt issue costs amounted to P15 as at December 31, 2019.

ss. The amount represents drawdown by SMYAC amounting to P551 from its P2,000 term loan. The loan is amortized 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.

Unamortized debt issue costs amounted to P4 as at December 31, 2019.

tt. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 and maturing on October 11, 2019. The proceeds of the loan were used for general financing and corporate requirements.

As at December 31, 2018, SMYPC paid P2,875 as partial settlement of the loan principal and fully paid the remaining balance of P625 on July 11, 2019 (Note 33).

uu. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes.

As at December 31, 2018, CAI paid P184 as partial settlement of the loan principal and fully paid the remaining balance of P166 on February 28, 2019 (Note 33).

- vv. 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\$209 and US\$225 as at December 31, 2019 and 2018, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$70 and US\$75 as at December 31, 2019 and 2018, respectively. The loan will mature on January 23, 2023.

Unamortized debt issue costs amounted to P15 and P27 as at December 31, 2019 and 2018, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P5 and P9 as at December 31, 2019 and 2018, respectively, for the floating interest tranche.

- ww. 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 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.

Unamortized debt issue costs amounted to P600 as at December 31, 2019.

- xx. 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 partially paid US\$350 in 2018 and fully paid the remaining balance of US\$150 in 2019 out of US\$500 term facility.

Unamortized debt issue costs amounted to P521 and P893 as at December 31, 2019 and 2018, respectively.

- yy. 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\$345 and US\$50 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P276 and P500 as at December 31, 2019 and 2018, respectively.

zz. 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\$333 and US\$306 as at December 31, 2019 and 2018, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$109 and US\$101 as at December 31, 2019 and 2018, respectively. The loan will mature on December 16, 2030.

Unamortized debt issue costs amounted to P339 and P376 as at December 31, 2019 and 2018, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P96 and P123 as at December 31, 2019 and 2018, respectively, for the floating interest tranche.

aaa. 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 P43 as at December 31, 2019.

bbb. 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 P10,676 and P12,857 as at December 31, 2019 and 2018, 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, 5.2840% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.2500% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.1250% Series G Bonds due in 2028; and (iv) 5.2500% 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 recently issued P10,000 retail bond of the Parent Company listed on October 4, 2019; and (ii) the recently signed US\$2,000 Syndication Agreement dated December 18, 2019 relating to the US\$1,750 Facility Agreement dated September 27, 2019, respectively.

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 recently issued P10,000 retail bond of the Parent Company listed on October 4, 2019; and (ii) the recently contracted 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.

The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as at December 31, 2019 and 2018.

The movements in debt issue costs are as follows:

	Note	2019	2018
Balance at beginning of year		P6,848	P3,977
Additions		2,577	3,705
Amortization	30	(1,968)	(1,386)
Reclassification, capitalized and others		(112)	552
Balance at end of year		P7,345	P6,848

Repayment Schedule

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

Year	Gross Amount	Debt Issue Costs	Net
2020	P44,410	P602	P43,808
2021	88,049	1,046	87,003
2022	96,471	875	95,596
2023	188,052	2,134	185,918
2024 and thereafter	273,167	2,688	270,479
Total	P690,149	P7,345	P682,804

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 40.

Establishment of a MTN Programme

On December 5, 2019, the BOD approved the establishment of a MTN 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 pesos). 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 New Manila International Airport Project, 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.

22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	<i>Note</i>	2019	2018
Amounts owed to related parties	33	P7,533	P7,873
Retirement liabilities - noncurrent	35	6,485	5,342
ARO	4	2,217	3,879
Derivative liabilities - noncurrent	4, 40, 41	1,444	566
Cash bonds		750	434
IRO	4	640	888
Cylinder deposits		608	573
Concession liabilities		94	98
Obligation to ROP - service concession agreement	4, 34	76	2,449
Redeemable preferred shares	4	19	18
Others		2,326	2,264
	40, 41	P22,192	P24,384

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 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 will be mandatorily 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.

“Others” include amounts owed to a supplier for the purchase of equipment.

23. Income Taxes

The components of income tax expense are shown below:

	2019	2018	2017
Current	P22,691	P22,733	P20,510
Deferred	5,822	1,735	5,859
	P28,513	P24,468	P26,369

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

2019	Balance at January 1	Adjustment Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,748	P -	(P196)	P -	P63	P4,615
MCIT	115	-	761	-	-	876
NOLCO	2,102	-	(352)	-	-	1,750
Undistributed net earnings of foreign subsidiaries	(1,129)	-	102	40	(53)	(1,040)
Leases	(7,747)	1,194	(4,707)	-	27	(11,233)
Unrealized intercompany charges and others	(1,739)	-	(1,430)	1,116	(128)	(2,181)
	(P3,650)	P1,194	(P5,822)	P1,156	(P91)	(P7,213)

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,779	P41	P -	(P72)	P4,748
MCIT	118	(3)	-	-	115
NOLCO	2,013	89	-	-	2,102
Undistributed net earnings of foreign subsidiaries	(1,025)	(5)	(67)	(32)	(1,129)
Leases	(5,343)	(2,440)	-	36	(7,747)
Unrealized intercompany charges and others	(2,804)	583	315	167	(1,739)
	(P2,262)	(P1,735)	P248	P99	(P3,650)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2019	2018
Deferred tax assets	4	P18,052	P19,249
Deferred tax liabilities		(25,265)	(22,899)
		(P7,213)	(P3,650)

As at December 31, 2019, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2017	December 31, 2020	P17	P14
2018	December 31, 2021	143	68
2019	December 31, 2022	5,673	794
		P5,833	P876

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:

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(4.15%)	(2.95%)	(1.67%)
Equity in net loss (earnings) of associates and joint ventures	(0.04%)	0.12%	(0.11%)
Loss (gain) on sale of investments subject to final or capital gains tax	0.09%	(0.10%)	(0.32%)
Others, mainly income subject to different tax rates - net	11.09%	6.39%	4.58%
Effective income tax rate	36.99%	33.46%	32.48%

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 34,164 and 34,768 common stockholders as at December 31, 2019 and 2018, respectively.

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

	<i>Note</i>	2019	2018	2017
Issued and outstanding shares at beginning of year		3,288,649,125	3,287,018,252	3,284,960,787
Issuances during the year	39	-	1,630,873	2,057,465
Issued shares at end of year		3,288,649,125	3,288,649,125	3,287,018,252
Less treasury shares		904,752,537	904,752,537	904,752,537
Issued and outstanding shares at end of year		2,383,896,588	2,383,896,588	2,382,265,715

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 and 2018.

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.

A portion of the amount used to pay to redeem the holders of the Subseries “2-A” preferred shares came from the entire proceeds from the issuance of the 446,667,000 Series “2-D”, “2-E” and “2-F” preferred shares amounting to P33,500.

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.

After reissuance of the Offer Shares on March 30, 2016 and redemption on September 21, 2019, the Parent Company has remaining 565,445,086 Subseries “2-A” and 90,428,200 Subseries “2-B” preferred shares held in treasury.

The Parent Company has 1,102,226,400 and 1,192,654,600 outstanding Series “2” preferred shares as at December 31, 2019 and 2018 and has a total of 1,043 and 1,128 preferred stockholders as at December 31, 2019 and 2018, respectively.

c. Treasury Shares

Treasury shares consist of:

	2019	2018	2017
Common	P67,093	P67,093	P67,093
Preferred	49,190	42,408	42,408
	P116,283	P109,501	P109,501

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as at December 31, 2019, 2018 and 2017.

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. As at December 31, 2019 and 2018, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 39).

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2019, 2018 and 2017, 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.

e. Appropriated Retained Earnings

The BOD of certain subsidiaries approved additional appropriations amounting to P13,109, P15,164 and P22,218 in 2019, 2018 and 2017, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P29,436, P7,926 and P12,234 in 2019, 2018 and 2017, respectively.

25. Sales

Sales consist of:

	<i>Note</i>	2019	2018	2017
Goods		P992,252	P995,633	P799,437
Services		28,250	29,310	26,649
	6	P1,020,502	P1,024,943	P826,086

26. Cost of Sales

Cost of sales consist of:

	<i>Note</i>	2019	2018	2017
Inventories		P565,273	P592,560	P452,122
Taxes and licenses		95,775	79,100	58,259
Depreciation and amortization	28	31,888	30,498	25,710
Energy fees	34	26,417	25,424	23,726
Power purchases	34	21,565	11,321	10,851
Contracted services		16,032	16,393	14,518
Fuel and oil		15,508	23,979	15,657
Freight, trucking and handling		12,003	11,817	10,604
Personnel	29	10,093	11,250	9,195
Tolling fees	34	8,959	8,889	7,970
Communications, light and water		6,643	6,198	5,772
Repairs and maintenance		4,643	5,968	5,387
Rent	4, 34	566	945	830
Others		3,450	1,406	3,620
		P818,815	P825,748	P644,221

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2019	2018	2017
Selling	P41,345	P42,718	P36,629
Administrative	44,627	39,392	34,194
	P85,972	P82,110	P70,823

Selling expenses consist of:

	Note	2019	2018	2017
Freight, trucking and handling		P10,484	P9,853	P8,564
Personnel	29	10,022	11,302	8,612
Advertising and promotions		9,682	8,987	9,085
Depreciation and amortization	28	4,050	3,092	2,949
Rent	4, 34	1,819	3,694	3,423
Repairs and maintenance		1,505	1,449	1,440
Taxes and licenses		841	786	689
Professional fees		659	683	552
Supplies		575	663	589
Communications, light and water		464	494	409
Others		1,244	1,715	317
		P41,345	P42,718	P36,629

Administrative expenses consist of:

	Note	2019	2018	2017
Personnel	29	P21,788	P18,543	P16,862
Depreciation and amortization	28	7,123	4,689	4,391
Taxes and licenses		3,567	3,415	2,511
Professional fees		2,278	2,926	2,530
Repairs and maintenance		2,079	1,321	1,022
Rent	4, 34	1,077	605	739
Communications, light and water		1,066	785	730
Impairment loss	8, 9, 18	1,044	1,024	537
Supplies		772	653	702
Freight, trucking and handling		581	388	259
Research and development		152	152	127
Others	34	3,100	4,891	3,784
		P44,627	P39,392	P34,194

“Others” consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	2019	2018	2017
Cost of sales:				
Property, plant and equipment	13	P19,042	P22,682	P18,341
Right-of-use assets	14	5,434	-	-
Deferred containers, biological assets and others	15, 16, 17, 18	7,412	7,816	7,369
	26	31,888	30,498	25,710
Selling and administrative expenses:				
Property, plant and equipment	13	4,619	3,891	4,400
Right-of-use assets	14	1,255	-	-
Deferred containers and others	15, 17, 18	5,299	3,890	2,940
	27	11,173	7,781	7,340
		P43,061	P38,279	P33,050

“Others” include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2019	2018	2017
Salaries and wages		P22,222	P20,970	P17,877
Retirement costs - net	35	1,202	2,002	1,832
Other employee benefits	39	18,479	18,123	14,960
		P41,903	P41,095	P34,669

Personnel expenses are distributed as follows:

	<i>Note</i>	2019	2018	2017
Cost of sales	26	P10,093	P11,250	P9,195
Selling expenses	27	10,022	11,302	8,612
Administrative expenses	27	21,788	18,543	16,862
		P41,903	P41,095	P34,669

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<i>Note</i>	2019	2018	2017
Interest expense		P50,901	P41,518	P31,220
Other financing charges	21, 35	5,118	3,978	4,494
		P56,019	P45,496	P35,714

Amortization of debt issue costs included in “Other financing charges” amounted to P1,968, P1,386 and P2,778 in 2019, 2018 and 2017, respectively (Note 21).

Interest expense on loans payable, long-term debt and lease liabilities is as follows:

	Note	2019	2018	2017
Loans payable	19	P10,473	P7,141	P5,513
Long-term debt	21	31,694	25,983	16,623
Lease liabilities	14, 34	8,734	8,394	9,084
		P50,901	P41,518	P31,220

31. Interest Income

Interest income consists of:

	Note	2019	2018	2017
Interest from short-term investments, cash in banks and others	7, 12, 35	P10,287	P6,709	P4,019
Interest on amounts owed by related parties	33	388	483	506
		P10,675	P7,192	P4,525

32. Other Income (Charges)

Other income (charges) consists of:

	Note	2019	2018	2017
Construction revenue	4, 17, 34	P25,386	P23,062	P18,089
Gain (loss) on foreign exchange - net	40	5,422	(9,714)	241
Dividend income		1,886	1,887	1,350
PSALM monthly fees reduction		1,171	1,615	3,284
Additional provision on impairment (a)	13, 17, 18	(1,573)	(771)	(610)
Gain (loss) on derivatives - net	41	(3,308)	805	(3,665)
Construction costs	4, 17, 34	(25,386)	(23,062)	(18,089)
Others (b)		3,250	550	(446)
		P6,848	(P5,628)	P154

- a. *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.

In 2017, SMB also 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 SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired. SMB assessed the recoverable amount of SMBB's assets and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P1,262. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P534.

No impairment losses or reversals of previously recognized impairment losses were recognized in 2018.

In 2019, SMB further incurred losses in its North China operations and assessed the recoverable amount of SMBB's assets located in Baoding, Hebei Province. The result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P300. Accordingly, impairment loss amounting to P903 was recognized to reduce carrying amount to recoverable amount of property, plant and equipment, and deferred containers.

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

The recoverable amount of SMBB has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 18 years, which is the remaining estimated useful life of the assets. Sales volume growth rate and pre-tax discount rate used for value in use calculation were 5% to 15% and 11%, respectively.

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

- b. "Others" consist of rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO and proceeds from insurance claims. In 2019, the amount also includes tax credit certificates issued by the BIR to SMB for the tax refund cases of San Mig Light for the years 2009 and 2010 amounting to P1,430 (Note 44) and the gain on fair valuation of investment in MNHPI recognized by the Group following its deconsolidation amounting to P727 (Note 5).

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. Transactions with related parties are made at normal market prices and terms. 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, 18, 36	2019	P7	P -	P6,663	P551	On demand or to be settled on the first anniversary of commercial operations of the Nonoc Project; interest and non-interest bearing	Unsecured; no impairment
		2018	8	-	6,803	551		
Retirement Plans	8, 35	2019	301	-	9,275	-	On demand; interest bearing	Unsecured; no impairment
		2018	399	-	9,516	-		
Associates	8, 18, 20	2019	3,054	178	1,879	251	On demand; interest and non-interest bearing	Unsecured; no impairment
		2018	2,905	251	1,564	193		
	19, 21	2019	-	-	-	22,474	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2018	-	-	-	21,425		
Joint Ventures	8, 18, 20	2019	364	959	755	56	On demand; non-interest bearing	Unsecured; no impairment
		2018	76	1,181	684	64		
Shareholders in Subsidiaries	8, 20	2019	38	57	113	2,375	On demand; non-interest bearing	Unsecured; no impairment
		2018	125	103	29	2,515		
Others	8, 10, 20, 22	2019	2,521	2,468	497	7,739	On demand; non-interest bearing	Unsecured; no impairment
		2018	2,235	1,499	600	7,878		
Total		2019	P6,285	P3,662	P19,182	P33,446		
Total		2018	P5,748	P3,034	P19,196	P32,626		

- a. Amounts owed by related parties consist of current and noncurrent receivables 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 on the first anniversary of commercial operations of the Nonoc Project, a project 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, or such extended date as may be mutually agreed by the parties in writing. 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, 2019 (Note 18).

The second payment, is included as part of “Trade and other receivables - net” account in the consolidated statement of financial position as at December 31, 2018 (Note 8), while the final payment, is 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, 2018 (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. 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, 2019 and 2018 (Note 18).

- b. Amounts owed to related parties consist of trade payables, professional fees and leases. As at December 31, 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 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:

	Note	2019	2018	2017
Short-term employee benefits		P689	P742	P739
Retirement cost	35	20	8	10
		P709	P750	P749

34. Significant Agreements and Lease Commitments

Significant Agreements:

- Energy
 - *Independent Power Producer (IPP) Administration (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 P26,417, P25,424 and P23,726 in 2019, 2018 and 2017, respectively (Note 26). SMEC and SPDC renewed their performance bonds amounting to US\$58 and US\$20, which will expire on November 3, 2020 and January 25, 2020, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2021.

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 44).

- *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL 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 P206, P325 and P147 in 2019, 2018 and 2017, respectively (Note 27).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

- *Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)*

SMEC, SPPC, SPDC, SMCP, SCPC 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 distribution utilities, 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 take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. 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.

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL can also purchase power from WESM and 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 P21,435, P11,181 and P10,725 in 2019, 2018 and 2017, 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 up to 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 Distribution Utilities (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.

o COC

Daguma Agro-Minerals, Inc. (DAMI)'s coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68 million metric tons as at December 31, 2019.

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, 2019, 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, 2019.

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 by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. 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 COCs, 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/Department of Environment and Natural Resources 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 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 November 20, 2019, the DOE informed DAMI and BERI that the request for consolidation of COC No. 126 and COC No. 138 is in the process of evaluation of the proposed consolidated five-year WPB.

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. As at March 9, 2020, DAMI and BERI are finalizing the documents for submission to DOE to facilitate the process of consolidation and which is expected to be favorably considered and approved by the DOE.

On December 11, 2019, the DOE approved the ten-year extension and the initial five-year WPB for COC No. 134 of SEPC.

As at December 31, 2019, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of its commercial operations.

Based on management's assessment, the carrying amount of the mining rights does not exceed its recoverable amount as at December 31, 2019.

- 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, 2019 and 2018 (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, 2019 and 2018, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 44).

- **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, 2019, 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 2019, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statement 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 is currently ongoing and is expected to be completed in 2021.

ii. New Manila International Airport

On August 14, 2019, the ROP, through the DOTr, issued a NOA to SMHC, awarding the New Manila International Airport Project. In accordance with the NOA, SMAI was registered by SMHC as the concessionaire.

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 New Manila International Project for a period of 50 years from the issuance of the Certificate of Substantial Completion for the first phase.

The New 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.

The salient features of the Concession Agreement are presented below:

1. The New 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 New 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 New Manila International Airport and the removal or abatement of all liens, encumbrances and hazardous substances within the New Manila International Airport's vicinities as the case may be.
5. SMAI shall provide proper maintenance of the New 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 New Manila International Airport shall accrue to SMAI, including the lease or sublease of all business or commercial ventures and activities consistent with the New Manila International Airport's operations.

o *MRT 7 Concession Agreement*

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US\$1,236, adjusted to 2008 prices at US\$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.
2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.
3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.
5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the amortization payment made over the total amortization payment to be made during the concession period. After the end of the concession period but provided that all the amortization payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.
6. The amortization payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.
7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.
9. Upon the expiration of the concession period and payment in full of the amortization payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.
10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement.

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.

o *Toll Road Concession Agreements*

i. *SLEX*

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of the initial toll rate starting April 1, 2011.

In 2012, SLTC received a letter from the Department of Finance informing SLTC of the conveyance by PNCC to the ROP of its shares of stock in SLTC, by way of deed of assignment. Moreover, SLTC also received the Declarations of Trust signed by the individual nominees of PNCC, in favor of the ROP, in which each nominee affirmed their holding of single, qualifying share in SLTC in favor of the ROP.

On July 21, 2015, SLTC entered into a MOA with Ayala Corporation (AC), on the inter-operability of the SLEX and Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

The MOA on inter-operability provides the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway on July 24, 2015.

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 14.82 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. As at December 31, 2019, the Skyway Stage 3 Project is in the construction stage.

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.

- o Skyway Stage 4

On July 14, 2014, the Stage 4 STOA was executed by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator. CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the Toll Operation Certificate by the TRB to CITI and/or MOMCO.

As at December 31, 2019 the Skyway Stage 4 Project is in the inception of its construction stage.

iv. TPLEX

PIDC 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 PIDC. 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 PIDC. PIDC 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, PIDC 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 March 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 6, 2017, while Segment 8 (Pozorrubio to Rosario), which is the final phase of the TPLEX Project is almost done.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

Stage	Project Description
Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II (Phases I and II)	Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

○ *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.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay water right fee to the Provincial Government of Bulacan amounting to an aggregate amount of P25 for the first five years of operation and a certain percentage of annual gross revenue from the sixth year until the transfer date.
2. The Bulacan Bulk Water Supply Project will be implemented in three stages in different localities around the Province of Bulacan. The Water Service Providers (WSPs) entered into separate Memoranda of Understanding (MOU) with MWSS pursuant to which they agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Supply Project. Each MOU also provides that MWSS, respective WSP, and LCWDC will enter into a MOA simultaneous with the execution of the Concession Agreement.
3. LCWDC can use 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 can either pay in staggered cash or in installment. Ownership of NHA site shall be and shall remain with MWSS at all times.

LCWDC may also opt to acquire an alternative site, including all land rights, and rights of way (whether permanent or temporary) required and otherwise necessary to access the alternative site and carry out the works for the water treatment facility. Ownership of alternative site, land rights and right of way required shall be with LCWDC and shall continue to be so until transfer date.

4. 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 P8,959, P8,889 and P7,970 in 2019, 2018 and 2017, respectively (Note 26).

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” are 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 P167,387 and P141,916, respectively, as at December 31, 2018, (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 “Property, plant and equipment - net” and “Lease liabilities” accounts in the consolidated statements of financial position (Notes 4 and 13).

The carrying amount of the Group’s capitalized asset and related liability of P162,201 and P119,835, respectively, are presented as part of “Right-of-use assets - net” and “Lease liabilities” accounts in the consolidated statement of financial position as at December 31, 2019 (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 P7,290, P8,321 and P9,074 in 2019, 2018 and 2017, respectively (Note 30).

The future minimum lease payments as at December 31, 2018 are as follows:

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$268	P14,095	P12,836	P26,931
More than one year and not later than five years	1,054	55,400	50,478	105,878
Later than five years	360	18,937	17,275	36,212
	1,682	88,432	80,589	169,021
Less: Future finance charges on lease liabilities	185	9,724	17,381	27,105
Present values of lease liabilities	US\$1,497	P78,708	P63,208	P141,916

The present values of minimum lease payments as at December 31, 2018 are as follows:

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$217	P11,392	P8,198	P19,590
More than one year and not later than five years	939	49,364	39,689	89,053
Later than five years	341	17,952	15,321	33,273
	US\$1,497	P78,708	P63,208	P141,916

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 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 and P66 in 2019 and 2018, respectively (Note 30).

Upon adoption of PFRS 16, adjustment pertaining to MPPCL's land under lease arrangement amounted to P127 as at January 1, 2019. MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position amounted to P108 as at December 31, 2019 (Notes 4 and 14).

Future minimum lease payments under finance lease with the present value of future minimum lease payments as at December 31, 2018 follow:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than one year	P69	P69
More than one year but not more than five years	16	13
Later than five years	17	10
	102	92
Less: Future finance charges on lease liabilities	10	-
Present values of lease liabilities	P92	P92

c. Equipment

The Group's finance leases cover equipment needed for business operations of MNHPI. The agreements do not allow subleasing. The net carrying amount of leased assets is P137 as at December 31, 2018 (Notes 4 and 13).

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, P7 and P10 in 2019, 2018 and 2017, respectively (Note 30).

The Group's share in the minimum lease payments for these lease liabilities as at December 31, 2018 are as follows:

	Minimum Lease Payable	Interest	Principal
Within one year	P42	P3	P39
After one year but not more than five years	20	1	19
	P62	P4	P58

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.

Non-cancellable operating lease rentals as at December 31, 2018 are payable as follows:

	2018
Within one year	P2,933
After one year but not more than five years	9,771
More than five years	21,462
	P34,166

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 statements of income amounted to P5,244 and P4,992 in 2018 and 2017, respectively (Notes 4, 26 and 27).

▪ **Group as Lessor**

The Group has entered into operating leases on its investment property portfolio, consisting of surplus office spaces and leased property (Note 15) and certain service stations and other related structures and machinery and equipment, as well as leased property (Note 13). The leases have terms of three to ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

Operating Leases under PFRS 16	2019
Within one year	P1,421
One to two years	943
Two to three years	668
Three to four years	511
Four to five years	548
More than five years	7,809
	P11,900
Operating Leases under PAS 17	2018
Within one year	P326
After one year but not more than five years	504
After five years	536
	P1,366

Rent income recognized in the consolidated statements of income amounted to P1,346, P785 and P1,307 in 2019, 2018 and 2017, respectively (Note 4 and 32).

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, 2019. 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	
	2019	2018	2019	2018	2019	2018	2019	2018
Balance at beginning of year	P33,468	P29,748	(P32,779)	(P32,209)	(P3,321)	(P3,188)	(P2,632)	(P5,649)
Benefit asset (obligation) of newly-acquired/deconsolidated subsidiaries	(40)	-	143	(165)	-	-	103	(165)
Recognized in profit or loss								
Service costs	-	-	(1,168)	(1,779)	-	-	(1,168)	(1,779)
Interest expense	-	-	(2,330)	(1,823)	-	-	(2,330)	(1,823)
Interest income	2,401	1,777	-	-	-	-	2,401	1,777
Interest on the effect of asset ceiling	-	-	-	-	(247)	(181)	(247)	(181)
Settlement gain (loss)	-	-	(34)	4	-	-	(34)	4
	2,401	1,777	(3,532)	(3,598)	(247)	(181)	(1,378)	(2,002)
Recognized in other comprehensive income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	-	-	(818)	(2,557)	-	-	(818)	(2,557)
Changes in financial assumptions	-	-	(476)	3,698	-	-	(476)	3,698
Changes in demographic assumptions	-	-	179	(93)	-	-	179	(93)
Return on plan assets excluding interest income	(4,088)	(1,636)	-	-	-	-	(4,088)	(1,636)
Changes in the effect of asset ceiling	-	-	-	-	1,821	48	1,821	48
	(4,088)	(1,636)	(1,115)	1,048	1,821	48	(3,382)	(540)
Others								
Contributions	3,025	5,513	-	-	-	-	3,025	5,513
Benefits paid	(3,879)	(1,960)	3,989	2,150	-	-	110	190
Transfers from other plans	2	18	(2)	(18)	-	-	-	-
Transfers to other plans	(2)	(18)	2	18	-	-	-	-
Other adjustments	(18)	26	29	(5)	-	-	11	21
	(872)	3,579	4,018	2,145	-	-	3,146	5,724
Balance at end of year	P30,869	P33,468	(P33,265)	(P32,779)	(P1,747)	(P3,321)	(P4,143)	(P2,632)

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 benefits recognized in the consolidated statements of income by the Parent Company amounted to P13, P38 and P18 in 2019, 2018 and 2017, respectively (Notes 29 and 31).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,391, P2,040 and P1,850 in 2019, 2018 and 2017, respectively (Notes 29, 30 and 31).

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).

As at December 31, 2018, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,838 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P128 and P5,342, respectively (Notes 20 and 22).

The carrying amounts of the Group's retirement fund approximate fair values as at December 31, 2019 and 2018.

The Group's plan assets consist of the following:

	In Percentages	
	2019	2018
Investments in marketable securities and shares of stock	75.04	74.16
Investments in pooled funds:		
Fixed income portfolio	8.44	8.95
Stock trading portfolio	2.43	4.09
Investments in real estate	1.48	1.32
Others	12.61	11.48

Investments in Marketable Securities

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.

As at December 31, 2018, the plan assets include:

- 48,631,227 common shares and 30,338,650 Subseries "2-B", 2,872,500 Subseries "2-D", 4,133,190 Subseries "2-E", 8,038,270 Subseries "2-F", 75,630 Subseries "2-G", 264,840 Subseries "2-H" and 6,356,670 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P147.00, P75.00, P74.95, P73.00, P75.00, P74.90, P74.50 and P73.50, respectively;
- 744,178,797 common shares and 290,470 preferred shares of Petron with fair market value per share of P7.71 and P980.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 23,891,570 common shares of GSMI with fair market value per share of P26.75;
- 2,269,980 common shares of SMFB with fair market value per share of P82.00;
- 250,700 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 P249.80.

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 (P1,811), P97 and P794 in 2019, 2018 and 2017, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P495, P515 and P474 in 2019, 2018 and 2017, 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 P9,684 and P9,407 as at December 31, 2019 and 2018, respectively. SMCRP recognized its share in total comprehensive income (loss) of BOC amounting to P277 and (P189) in 2019 and 2018, respectively.

b. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI, measured using cost method since cost approximates fair value, amounting to P859 and P769 as at December 31, 2019 and 2018, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

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

Approximately 80% and 72% 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, 2019 and 2018, respectively.

Approximately 68% and 76% 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, 2019 and 2018, 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 P633 and P634 as at December 31, 2019 and 2018, 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 P1,933 to the Retirement Plans in 2020.

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

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

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

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

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

	In Percentages	
	2019	2018
Discount rate	4.40 - 7.75	5.50 - 8.50
Salary increase rate	5.00 - 8.00	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 3.7 to 23.7 years and 3.1 to 21 years as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2019		2018	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P1,747)	P2,043	(P1,709)	P1,985
Salary increase rate	2,214	(1,939)	2,153	(1,908)

The outstanding balances of the Group's receivable from the retirement plans are as follows:

- a. The Parent Company has advances to SMCRP amounting to P7,304 and P7,117 as at December 31, 2019 and 2018, 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 5.75% in 2019 and 2018 (Note 31).
- b. Petron has advances to PCERP amounting to P1,971 and P2,399 as at December 31, 2019 and 2018, 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 2019 and 2018 (Note 31).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as at December 31, 2019 and 2018 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 2019, 2018 and 2017.

36. Cash Dividends

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

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				
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

2018

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	March 15, 2018	April 6, 2018	May 4, 2018	P0.35
	June 14, 2018	July 2, 2018	July 25, 2018	0.35
	September 13, 2018	October 5, 2018	October 30, 2018	0.35
	December 6, 2018	January 2, 2019	January 24, 2019	0.35
Preferred SMCP1	January 25, 2018	March 8, 2018	April 5, 2018	1.0565625
	May 10, 2018	June 21, 2018	July 6, 2018	1.0565625
	August 9, 2018	September 21, 2018	October 5, 2018	1.0565625
	November 13, 2018	December 21, 2018	January 11, 2019	1.0565625
SMC2B	January 25, 2018	March 8, 2018	April 5, 2018	1.4296875
	May 10, 2018	June 21, 2018	July 6, 2018	1.4296875
	August 9, 2018	September 21, 2018	October 5, 2018	1.4296875
	November 13, 2018	December 21, 2018	January 11, 2019	1.4296875
SMC2C	January 25, 2018	March 8, 2018	April 5, 2018	1.50
	May 10, 2018	June 21, 2018	July 6, 2018	1.50
	August 9, 2018	September 21, 2018	October 5, 2018	1.50
	November 13, 2018	December 21, 2018	January 11, 2019	1.50
SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	1.11433125
	May 10, 2018	June 21, 2018	July 6, 2018	1.11433125
	August 9, 2018	September 21, 2018	October 5, 2018	1.11433125
	November 13, 2018	December 21, 2018	January 11, 2019	1.11433125
SMC2E	January 25, 2018	March 8, 2018	April 5, 2018	1.18603125
	May 10, 2018	June 21, 2018	July 6, 2018	1.18603125
	August 9, 2018	September 21, 2018	October 5, 2018	1.18603125
	November 13, 2018	December 21, 2018	January 11, 2019	1.18603125
SMC2F	January 25, 2018	March 8, 2018	April 5, 2018	1.27635
	May 10, 2018	June 21, 2018	July 6, 2018	1.27635
	August 9, 2018	September 21, 2018	October 5, 2018	1.27635
	November 13, 2018	December 21, 2018	January 11, 2019	1.27635
SMC2G	January 25, 2018	March 8, 2018	April 5, 2018	1.23361875
	May 10, 2018	June 21, 2018	July 6, 2018	1.23361875
	August 9, 2018	September 21, 2018	October 5, 2018	1.23361875
	November 13, 2018	December 21, 2018	January 11, 2019	1.23361875
SMC2H	January 25, 2018	March 8, 2018	April 5, 2018	1.1854125
	May 10, 2018	June 21, 2018	July 6, 2018	1.1854125
	August 9, 2018	September 21, 2018	October 5, 2018	1.1854125
	November 13, 2018	December 21, 2018	January 11, 2019	1.1854125
SMC2I	January 25, 2018	March 8, 2018	April 5, 2018	1.18790625
	May 10, 2018	June 21, 2018	July 6, 2018	1.18790625
	August 9, 2018	September 21, 2018	October 5, 2018	1.18790625
	November 13, 2018	December 21, 2018	January 11, 2019	1.18790625

On January 23, 2020, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at March 20, 2020 on the following shares to be paid on April 3, 2020, as follows:

Class of Shares	Dividends Per Share
SMCP1	P1.0565625
SMC2C	1.50
SMC2D	1.11433125
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625

On March 12, 2020, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as at April 3, 2020 to be paid on April 30, 2020.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	2019	2018	2017
Net income attributable to equity holders of the Parent Company		P21,329	P23,077	P28,225
Dividends on preferred shares	24, 36	(7,187)	(7,317)	(7,317)
Net income attributable to common shareholders of the Parent Company (a)		P14,142	P15,760	P20,908
Weighted average number of common shares outstanding (in millions) - basic (c)		2,384	2,383	2,381
Effect of dilution of common shares (in millions)		-	-	2
Weighted average number of common shares outstanding (in millions) - diluted (d)		2,384	2,383	2,383
Earnings per common share attributable to equity holders of the Parent Company:				
Basic (a/c)		P5.93	P6.61	P8.78
Diluted (a/d)		5.93	6.61	8.77

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):

	2019	2018	2017
Trade and other receivables - net	(P10,539)	(P10,398)	(P10,677)
Inventories	(8,949)	(15,598)	(19,573)
Prepaid expenses and other current assets	6,026	(10,869)	(3,139)
Accounts payable and accrued expenses	31,446	(6,101)	11,732
Income and other taxes payable and others	(2,886)	1,889	2,624
	P15,098	(P41,077)	(P19,033)

b. Acquisition of Subsidiaries

	Note	2019	2018	2017
Cash and cash equivalents		P301	P1,715	P29
Trade and other receivables - net		285	2,679	897
Inventories		326	2,577	172
Prepaid expenses and other current assets		154	1,639	(264)
Investments and advances - net		-	190	-
Property, plant and equipment - net	13	1,959	62,323	1,186
Right-of-use assets - net	14	179	-	-
Investment property - net	15	-	90	707
Other intangible assets - net	17	8	80	-
Deferred tax assets		12	66	47
Other noncurrent assets - net		387	3,095	-
Loans payable		-	(2,344)	-
Accounts payable and accrued expenses		(899)	(9,951)	(1,233)
Income and other taxes payable		(24)	(234)	(63)
Long-term debt - net of debt issue costs		(48)	(31,952)	-
Deferred tax liabilities		(1)	(116)	(43)
Lease liabilities		(193)	(31)	-
Other noncurrent liabilities		-	(210)	-
Non-controlling interests		(45)	(198)	-
Net assets		2,401	29,418	1,435
Cash and cash equivalents		(301)	(1,715)	(29)
Goodwill in subsidiaries	4, 17	53	70,384	1,162
Investments and advances		(745)	(30)	-
Net cash flows		P1,408	P98,057	P2,568

c. Changes in liabilities arising from financing activities

	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

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Dividends Payable
Balance as at January 1, 2018	P149,863	P399,492	P154,897	P4,429
Changes from Financing Activities				
Proceeds from borrowings	996,769	242,405	-	-
Payments of borrowings	(964,464)	(65,591)	-	-
Payments of lease liabilities	-	-	(25,698)	-
Dividends and distributions paid	-	-	-	(29,706)
Total Changes from Financing Activities	32,305	176,814	(25,698)	(29,706)
The Effect of Changes in Foreign Exchange Rates	(488)	7,951	4,510	(2)
Acquisition of Subsidiaries and Other Changes	2,344	33,358	8,357	29,321
Balance as at December 31, 2018	P184,024	P617,615	P142,066	P4,042

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

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

The ESPP also 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. As at December 31, 2019 and 2018, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 24).

There were no shares offered under the ESPP in 2019 and 2018.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as at the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its ten-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2019 and 2018.

There were no options outstanding as at December 31, 2019 and December 31, 2018 (Note 37).

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

	<i>Note</i>	2018	
		Number of Share Stock Options	Weighted Average Price
Number of shares at beginning of year		1,782,790	P120.33
Exercised during the year	24	(1,630,873)	120.33
Expired during the year		(151,917)	120.33
Number of shares at end of year		-	-

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

40. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

The principal non-trade related financial instruments of the Group include cash and cash equivalents, 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, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P24,515 4.9925% - 9.885%	P46,288 4.0032% - 9.885%	P65,491 4.8243% - 9.885%	P53,914 4.5219% - 9.885%	P88,870 4.63% - 9.885%	P138,315 5.1792% - 9.885%	P417,393
Foreign currency-denominated (expressed in Philippine peso) Interest rate	2,467 4.7776% - 5.5959%	2,638 4.7776% - 5.5959%	1,891 4.7776% - 5.5959%	32,855 4.7776% - 5.5959%	1,117 5.5959%	13,368 5.5959%	54,336
Floating Rate							
Philippine peso-denominated Interest rate	1,034 BVAL + margin or BSP overnight rate, whichever is higher	1,719 BVAL + margin or BSP overnight rate, whichever is higher	2,714 BVAL + margin or BSP overnight rate, whichever is higher	1,042 BVAL + margin or BSP overnight rate, whichever is higher	162 BVAL + margin or BSP overnight rate, whichever is higher	12,000 BVAL + margin or BSP overnight rate, whichever is higher	18,671
Foreign currency-denominated (expressed in Philippine peso) Interest rate	16,394 LIBOR/applicable reference rate + margin	37,404 LIBOR/applicable reference rate + margin	26,375 LIBOR/applicable reference rate + margin	100,241 LIBOR/applicable reference rate + margin	13,510 LIBOR/applicable reference rate + margin	5,825 LIBOR/applicable reference rate + margin	199,749
	P44,410	P88,049	P96,471	P188,052	P103,659	P169,508	P690,149
December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P29,436 5.4583% - 10.50%	P28,159 4.9925% - 8.6615%	P51,765 4.0032% - 9.885%	P49,110 4.8243% - 9.885%	P49,465 4.5219% - 9.885%	P161,404 5.1792% - 9.885%	P369,339
Foreign currency-denominated (expressed in Philippine peso) Interest rate	1,949 4.7776% - 5.5959%	2,477 4.7776% - 5.5959%	2,607 4.7776% - 5.5959%	1,838 4.7776% - 5.5959%	33,965 4.7776% - 5.5959%	12,222 5.5959%	55,058
Floating Rate							
Philippine peso-denominated Interest rate	1,239 BVAL + margin or BSP overnight rate, whichever is higher	985 BVAL + margin or BSP overnight rate, whichever is higher	1,503 BVAL + margin or BSP overnight rate, whichever is higher	2,347 BVAL + margin or BSP overnight rate, whichever is higher	726 BVAL + margin or BSP overnight rate, whichever is higher	- -	6,800
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,558 LIBOR + margin	20,051 LIBOR + margin	26,404 LIBOR + margin	14,956 LIBOR + margin	99,541 LIBOR + margin	8,756 LIBOR + margin	193,266
	P56,182	P51,672	P82,279	P68,251	P183,697	P182,382	P624,463

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 P2,184, P2,001 and P1,037 in 2019, 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

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

	December 31, 2019		December 31, 2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$3,471	P175,824	US\$2,444	P128,529
Trade and other receivables	862	43,637	842	44,237
Prepaid expenses and other current assets	11	545	17	926
Noncurrent receivables	20	1,006	87	4,552
	4,364	221,012	3,390	178,244
Liabilities				
Loans payable	90	4,503	696	36,574
Accounts payable and accrued expenses	1,592	80,579	1,156	60,808
Long-term debt (including current maturities)	5,018	254,085	4,722	248,324
Lease liabilities (including current portion)	1,368	69,286	1,499	78,799
Other noncurrent liabilities	177	8,974	166	8,722
	8,245	417,427	8,239	433,227
Net foreign currency-denominated monetary liabilities	(US\$3,881)	(P196,415)	(US\$4,849)	(P254,983)

The Group reported net gains (losses) on foreign exchange amounting to P5,422, (P9,714) and P241 in 2019, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2019	50.64
December 31, 2018	52.58
December 31, 2017	49.93

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):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2019				
Cash and cash equivalents	(P3,041)	(P2,554)	P3,041	P2,554
Trade and other receivables	(304)	(545)	304	545
Prepaid expenses and 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 accrued expenses	1,010	1,288	(1,010)	(1,288)
Long-term debt (including current maturities)	4,220	3,752	(4,220)	(3,752)
Lease liabilities (including current portion)	1,345	965	(1,345)	(965)
Other noncurrent liabilities	151	160	(151)	(160)
	6,726	6,255	(6,726)	(6,255)
	P3,355	P3,134	(P3,355)	(P3,134)
	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2018				
Cash and cash equivalents	(P2,031)	(P1,835)	P2,031	P1,835
Trade and other receivables	(334)	(790)	334	790
Prepaid expenses and other current assets	(8)	(16)	8	16
Noncurrent receivables	(30)	(77)	30	77
	(2,403)	(2,718)	2,403	2,718
Loans payable	450	561	(450)	(561)
Accounts payable and accrued expenses	618	1,181	(618)	(1,181)
Long-term debt (including current maturities)	4,016	3,517	(4,016)	(3,517)
Finance lease liabilities (including current portion)	785	1,050	(785)	(1,050)
Other noncurrent liabilities	16	162	(16)	(162)
	5,885	6,471	(5,885)	(6,471)
	P3,482	P3,753	(P3,482)	(P3,753)

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, 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)	28,784	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	6,167	-	-
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	1,355	89	-
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

December 31, 2018	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	P243,150	P243,150	P243,150	P -	P -	P -
Trade and other receivables - net	129,893	129,893	129,893	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,545	1,545	1,174	371	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	254	254	254	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,994	42,021	60	46	127	41,788
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	226	247	49	77	121	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	21,158	21,454	-	2,870	16,304	2,280
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	14,005	14,005	9,038	4,967	-	-
Financial Liabilities						
Loans payable	184,024	184,876	184,876	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	145,758	145,758	145,758	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,495	2,495	1,929	566	-	-
Long-term debt (including current maturities)	617,615	783,230	89,195	82,220	400,027	211,788
Finance lease liabilities (including current portion)	142,066	169,173	27,042	29,698	76,222	36,211
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	13,217	15,710	-	1,777	9,330	4,603

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 non-current receivables and deposits.

Receivables with high probability of delinquency and default were fully provided with allowance for impairment losses.

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	2019	2018
Cash and cash equivalents (excluding cash on hand)	7	P283,507	P239,619
Trade and other receivables - net	8	136,488	129,893
Derivative assets	10, 18	1,158	1,545
Financial assets at FVOCI	10, 12	163	206
Financial assets at amortized cost	10, 12	257	226
Noncurrent receivables and deposits - net	18	28,784	21,158
Restricted cash	10, 18	12,423	14,005
		P462,780	P406,652

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.

2019						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P283,507	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	-	28,784	724	-	-	29,508
Restricted cash	6,256	6,167	-	-	-	12,423

2018						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P239,619	P -	P -	P -	P -	P239,619
Trade and other receivables	129,893	-	13,196	-	-	143,089
Derivative assets	-	-	-	1,159	386	1,545
Investment in debt instruments at FVOCI	-	-	-	-	206	206
Investment in debt instruments at amortized cost	40	186	-	-	-	226
Noncurrent receivables and deposits	-	21,158	493	-	-	21,651
Restricted cash	9,038	4,967	-	-	-	14,005

The aging of receivables is as follows:

			Amounts Owed by Related Parties	
December 31, 2019	Trade	Non-trade		Total
Current	P63,321	P23,884	P13,826	P101,031
Past due:				
1 - 30 days	8,510	1,972	390	10,872
31 - 60 days	2,415	448	14	2,877
61 - 90 days	853	1,329	23	2,205
Over 90 days	11,695	19,572	924	32,191
	P86,794	P47,205	P15,177	P149,176

			Amounts Owed by Related Parties	
December 31, 2018	Trade	Non-trade		Total
Current	P52,659	P23,010	P15,218	P90,887
Past due:				
1 - 30 days	8,450	1,048	338	9,836
31 - 60 days	2,800	3,398	9	6,207
61 - 90 days	1,071	1,710	2	2,783
Over 90 days	11,514	21,091	771	33,376
	P76,494	P50,257	P16,338	P143,089

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, financial assets at FVOCI, financial assets 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.

41. 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, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P286,457	P286,457	P243,150	P243,150
Trade and other receivables - net	136,488	136,488	129,893	129,893
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	254	254
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,907	41,907	41,994	41,994
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	257	226	226
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	28,784	28,784	21,158	21,158
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,423	12,423	14,005	14,005
Financial Liabilities				
Loans payable	169,492	169,492	184,024	184,024
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	173,239	173,239	145,758	145,758
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,122	3,122	2,495	2,495
Long-term debt (including current maturities)	682,804	735,657	617,615	623,959
Lease liabilities (including current portion)	142,248	142,248	142,066	142,066
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,297	11,297	13,217	13,217

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 3.1% to 4.5% and 5.2% to 7.1% as at December 31, 2019 and 2018, respectively. The discount rates used for foreign currency-denominated loans range from 1.6% to 2.0% and 2.5% to 3.0% as at December 31, 2019 and 2018, 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, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$129	US\$186	US\$133	US\$448
Average strike rate	P52.71 to P55.55	P52.59 to P56.15	P52.59 to P56.15	
Foreign currency and interest rate risk:				
Cross currency swap:				
Notional amount	US\$20	US\$40	US\$280	US\$340
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%	

December 31, 2018	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Currency forwards:				
Notional amount	US\$15	US\$ -	US\$ -	US\$15
Average forward rate	P54.27	P -	P -	
Call spread swaps:				
Notional amount	US\$22	US\$65	US\$220	US\$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk:				
Cross currency swap:				
Notional amount	US\$ -	US\$ -	US\$120	US\$120
Strike rate	P -	P -	P54.31	
Fixed interest rate	-	-	5.80%	

The following are the amounts relating to hedged items:

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	-

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P11	P -	(P77)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,020	(538)	419

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

	Notional 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						
December 31, 2019									
Foreign currency risk: Call spread swaps	US\$448	P231	P356	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P200)	(P435)	P -	P307	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	340	37	1,475	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(1,224)	50	721	65	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	105	7	-	Other noncurrent assets - net and Accounts payable and accrued expenses	7	-	-	-	
	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						
December 31, 2018									
Foreign currency risk: Currency forwards	US\$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other income (charges) - net
Call spread swaps	307	386	332	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	-	(183)	-	70	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	120	-	377	Other noncurrent liabilities	(1,020)	598	252	-	Interest expense and other financing charges, and Other income (charges) - net

No ineffectiveness was recognized in the 2019 and 2018 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.

	2019		2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P538)	P342	P -	P -
Changes in fair value:				
Foreign currency risk	-	(435)	(11)	(187)
Foreign currency risk and interest rate risk	(1,394)	50	(1,020)	598
Interest rate risk	7	-	-	-
Amount reclassified to profit or loss	721	372	263	77
Tax effect	200	(8)	230	(146)
Ending balance	(P1,004)	P321	(P538)	P342

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Group.

Interest Rate Swap

As at December 31, 2019 and 2018, the Group has outstanding interest rate swap with notional amount of US\$300. 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 and P1,104 as at December 31, 2019 and 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$770 and US\$969 as at December 31, 2019 and 2018, respectively, and with various maturities in 2020 and 2019, respectively. The net negative fair value of these currency forwards amounted to P175 and P297 as at December 31, 2019 and 2018, respectively.

Currency Options

The Group has outstanding currency options with aggregate notional amount of US\$1,278 and US\$370 as at December 31, 2019 and 2018, respectively, and with various maturities in 2020 and 2019. The negative fair value of these currency options amounted to P53 and P10 as at December 31, 2019 and 2018, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,500 metric tons as at December 31, 2018. The negative fair value of these swaps amounted to P10 as at December 31, 2018. The Group has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 12.5 and 17.0 million barrels as at December 31, 2019 and 2018, respectively. The net positive fair value of these swaps amounted to P331 and P489 as at December 31, 2019 and 2018, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 233,000 and 60,000 metric tons as at December 31, 2019 and 2018, respectively. The positive (negative) fair value of these swaps amounted to (P3) and P96 as at December 31, 2019 and 2018, respectively.

Commodity Options

As at December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as at December 31, 2018. As at December 31, 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\$188 and US\$187 as at December 31, 2019 and 2018, 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 P220 and P87 as at December 31, 2019 and 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P3,308), P805, and (P3,665) in 2019, 2018 and 2017, respectively (Note 32).

Fair Value Changes on Derivatives

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

	2019	2018
Balance at beginning of year	(P950)	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	(1,807)	(453)
Not designated as accounting hedge	(3,054)	853
	(5,811)	(2,754)
Less fair value of settled instruments	(3,847)	(1,804)
Balance at end of year	(P1,964)	(P950)

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, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P1,158	P1,158	P -	P1,545	P1,545
Financial assets at FVPL	-	284	284	-	254	254
Financial assets at FVOCI	972	40,935	41,907	1,019	40,975	41,994
Financial Liabilities						
Derivative liabilities	-	3,122	3,122	-	2,495	2,495

The Group has no financial instruments valued based on Level 3 as at December 31, 2019 and 2018. In 2019 and 2018, 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.

42. Events after the Reporting Date

Parent Company

a. Commercial Papers Program

On February 6, 2020, the Parent Company filed with the SEC, a registration statement, together with the prospectus, for the planned P60,000 Commercial Papers Program, with an initial offer of P15,000 Series A Commercial Papers with an over subscription option of up to P5,000.

b. Redemption of Series 1 Preferred Shares

On March 12, 2020, the BOD of the Parent Company approved the redemption of all the outstanding Series "1" Preferred Shares (SMCP1) totaling 279,406,667 shares on April 14, 2020. 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.

SMFB

- a. On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 fixed rate bonds, consisting of five-year Series A Bonds due 2025 and seven-year Series B Bonds due on 2027.

The bonds were issued and listed in the PDEX on March 10, 2020.

The Series A Bonds and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds will be used to redeem Series 2 preferred shares of SMFB and payment of transaction-related fees, costs and expenses.

- b. On March 10, 2020, SMBIL and San Miguel (China) Investment Company Limited, the shareholders of SMBB, passed a resolution approving the dissolution of SMBB. SMBB has stopped operations and production activities and started the liquidation process from the date of the resolution.

SMYPC and CCEC

On February 1, 2020, a manufacturing plant of SMYPC in Pandacan, Manila was severely damaged by fire. The fire also damaged a portion of Skyway Stage 3 Project which was supposed to be accessible to motorists by April 2020.

Surveyors are in the process of assessing the extent of the loss, following which a claim will be filed for reimbursement with the insurance company.

Effect of Coronavirus Disease 2019 (COVID-19)

There are reported cases of the COVID-19 in the Philippines as of the start of March 2020. A significant increase in COVID-19 cases and imposition by the national and local government of measures to contain its spread in the country will possibly affect the country's economic performance which may impact the Group's businesses and consolidated financial results in 2020. The Group however sees this to be temporary and demand is expected to gradually recover to pre-COVID-19 levels.

The extent of the consequences, including the financial effect to the Group, will depend on certain developments, including the duration of the spread of COVID-19, impact on the Group's customers, suppliers and accessibility and effectiveness of government support programs, all of which are uncertain and cannot be determined as at the date of the issuance of the financial statements. Accordingly, the Group cannot reliably estimate the impact on its financial position and results of operations.

43. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCPC 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 SMCPC 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. SMCPC has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. 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 SMCPC, 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 SMCPC 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 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 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 said request for extension is still under evaluation by the BOI. The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy’s BOI registration.
- On April 24, 2019, MPGC was registered with Freeport Area of Bataan (FAB) as engaged in business of producing and generating electricity, processing fuels alternative for power generation, among others. As FAB enterprise, MPGC will operate a 4 x 150 MW power plant. As such, FAB granted MPGC certain incentives that include, among others, an ITH for four years for each unit effective on the committed date of start of commercial operations or actual date of start of commercial operations, whichever is earlier.

- On November 28, 2019, the BOI approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. Each registered site was granted with certain incentives including ITH, among others.

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 for certain feedmill, poultry, meats and ready-to-eat projects. In accordance with the provisions of EO No. 226, the projects are entitled, among others, to the following incentives:

- *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 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.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the Authority of Freeport Area of Bataan (AFAB) as a Manufacturer of Feeds for Poultry, Livestock and Marine Species. AFAB Certificate of Registration is valid for a period of one year from issuance and renewable annually subject to qualifications as determined by AFAB.

The Bataan Feedmill Project was registered with AFAB on January 6, 2017 under Registration No. 2017-057. Thereafter, the project's AFAB registration has been renewed accordingly as follows:

Registration Renewal Date	Certificate of Registration No.	Annual Period Covered
March 6, 2018	2018-096	2018
February 14, 2019	2019-079	2019
December 10, 2020	2020-047	2020

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.

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 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.

Golden Bay Grain Terminal Corporation (GBGTC)

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in EO No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

Pursuant to BOI Circular No. 2014-01, GBGTC is still required to continue submission of annual reports to the BOI for a period of five years from the last year of ITH availment. GBGTC's last availment of ITH for this project was in 2017.

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:

- 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.
- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- 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.
- 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.
- Exemption from real property tax on production equipment or machinery.
- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH in 2017 and 2018. No availment was made in 2019.

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.

Certificates of entitlement have been timely obtained by Petron to support its ITH credits in 2018 and 2017.

d. 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.

- *Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 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 sales/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.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products in its Main Office located at Tondo, Manila was granted with Registration No. 2013-068. In 2015, SLHBTC also 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 (Tondo and 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.

f. 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*

- *Operation of 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.

g. 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 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 Cassava, 2,426 GT)*. The project was registered on July 19, 2019, 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.

- 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.

h. 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.

i. 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.

44. 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 GSMI filed their respective comments on the appeal. The case remains pending with the SEC to date.

- Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

In 2004, the Parent Company was assessed by the BIR of excise taxes 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.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General 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.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company’s counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

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

As at March 12, 2020, the application for the issuance of tax credit certificate was already completed and ready for submission to the BIR.

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 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.

Filed by SMB

SMB filed eleven 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); and
- (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).

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 P828 and the amount of P106 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 P828. SMB filed an application for the issuance of a Tax Credit Certification with the BIR on August 22, 2019.

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 Tax Credit Certificate in the amount of P731. On November 6, 2019, the BIR issued a Tax Credit Certificate No. TCC201600000202 in favor of SMB (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 Tax Credit Certificate on August 5, 2019. The BIR issued Tax Credit Certificate No. TCC201600000204 in favor of SMB on November 13, 2019 (Note 32).

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 Tax Credit Certificate with the BIR in January 2020.

In CTA Case No. 8748, the 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*. The case is still pending in the Supreme Court.

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*.

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.

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. The Petitions for Review of SMB and the Commissioner are presently pending in the CTA *En Banc*.

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. The aforesaid Motion for Partial New Trial is still pending in the CTA First Division.

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. The aforesaid Formal Offer of Evidence is still under consideration by the Court.

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.

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 amount 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.

These cases are still pending with 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, 2019, 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, which is still pending resolution.

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 September 3, 2019, IBI filed a Motion to Consolidate G.R. Nos. 241147-48 and G.R. Nos. 240651 and 240665.

On October 3, 2019, IBI received a Resolution dated June 26, 2019 denying its Motion for Reconsideration. IBI also filed a Manifestation on October 21, 2019 informing the Court that in view of its payment of P270 on August 26, 2016, IBI shall be deemed to have fully satisfied the judgment award in accordance with the CTA First Division's Decision dated August 14, 2015.

On February 4, 2020, the IBI received a Resolution dated October 4, 2019 denying its Motion to Consolidate.

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 October 21, 2019, IBI filed a Manifestation informing the Supreme Court that the issuance of its Resolution dated June 26, 2019 in G.R. Nos. 241147-48 rendered the BIR's Petition as moot and academic. The case is still pending with the Supreme Court for resolution.

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.

IBI filed a Manifestation and Motion on November 27, 2019 praying for the deferment of the resolution of the consolidated Petitions in view of the pending compromise settlement of the parties. On December 4, 2019, IBI received the BIR's Manifestation informing the Supreme Court that it received a Proposal for Compromise/Amicable Settlement from IBI.

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. 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.

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. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and 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. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

On August 6, 2019, the CTA *En Banc* rendered its decision 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. A Petition for Review on Certiorari dated March 2, 2020 was filed by the BIR 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, 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.

On October 2, 2019, the CTA Third Division rendered its decision granting SMFI's Petition for Review and cancelling the deficiency income tax and VAT assessment issued by the BIR.

On November 4, 2019, the BIR filed a Motion for Reconsideration of the decision of the CTA Third Division. SMFI filed a Comment on the Motion for Reconsideration on November 29, 2019.

On a Resolution dated March 2, 2020, the CTA Third Division has denied Motion for Reconsideration filed by the BIR.

iii. SMFI vs. Office of the City Treasurer, City of Davao

On August 23, 2018, SMFI filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 209. On November 12, 2018, the Company filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 210. Both petitions were filed to appeal the joint decision of the Regional Trial Court 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.

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.

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. And on March 28, 2019, CTA declared Case AC No. 209 as 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 7, 2019, SMFI submitted the required Memorandum, awaiting the court's decision.

▪ 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 would 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, 2019. 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, which, on January 9, 2020 issued a Resolution ordering Petron to file its comment on plaintiffs' petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continues.

- 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. The motions for reconsideration were pending as at March 12, 2020.

Following the trial court's denial of PNOC's motion for reconsideration, PNOC filed a notice of appeal to the Court of Appeals, a copy of which was received by Petron on March 9, 2020.

- 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 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 the 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 exploring the possibility of a review of the said Federal Court 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 this year and recognized as interest income.

The balance amounting to RM23 (P282) was provided full impairment in 2019.

- **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 the 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 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 ("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. 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 this Court's 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 Temporary Restraining Order 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 "First CA Resolution"), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

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 (CA) 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.

This case is still pending with the Supreme Court *En Banc*.

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 TDI's Petition for Review on Certiorari.

These consolidated cases are still pending with the Supreme Court.

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 IPOPHL.

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 Comments on TDI's Petition for Review on Certiorari.

This case is still pending with the Supreme Court.

- 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.

By Order dated September 25, 2018, the case was transferred to the CTA First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As at December 31, 2019, the case is still pending 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 Consignation 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 consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation 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 consignation 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. To date, the said motion is still pending resolution.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this refusal, the resolution of the Motion for Reconsideration is pending to date.

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 above mentioned 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, 2019 and 2018, 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).

- Temporary Restraining Order (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 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, SPI and MPPCL filed various pleadings requesting 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 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, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI 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 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 and SPPC 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 its decision dated November 7, 2017 and resolution dated March 22, 2018.

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.

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 the Group 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, 2019.

- c. On May 10, 2019, the Parent Company, through FSCII, a subsidiary of SMELL, signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by Lafarge Holcim which was subject to the PCC review and approval.

- d. *Commitments*

The outstanding purchase commitments of the Group amounted to P113,517 as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects is approximately P221,507 as at December 31, 2019.

- e. *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 P50.64 and P52.58 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P51.79, P52.69 and P50.40 in 2019, 2018 and 2017, respectively, for income and expense accounts.

- f. 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.

COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	2	7	7		
---	---	---	---	---	---	---	---	---	--	--

COMPANY NAME

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				
S	U	B	S	I	D	I	A	R	I	E	S																		

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

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

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

--

Secondary License Type, If Applicable

--

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

8632-3000

Mobile Number

N/A

No. of Stockholders

35,207

Annual Meeting (Month / Day)

Second Tuesday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Ms. Bella O. Navarra

Email Address

N/A

Telephone Number/s

8632-3000

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

No. 40 San Miguel Avenue, Mandaluyong City
--

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

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

ANNEX “C”

SUPPLEMENTARY SCHEDULES



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

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

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

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

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

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

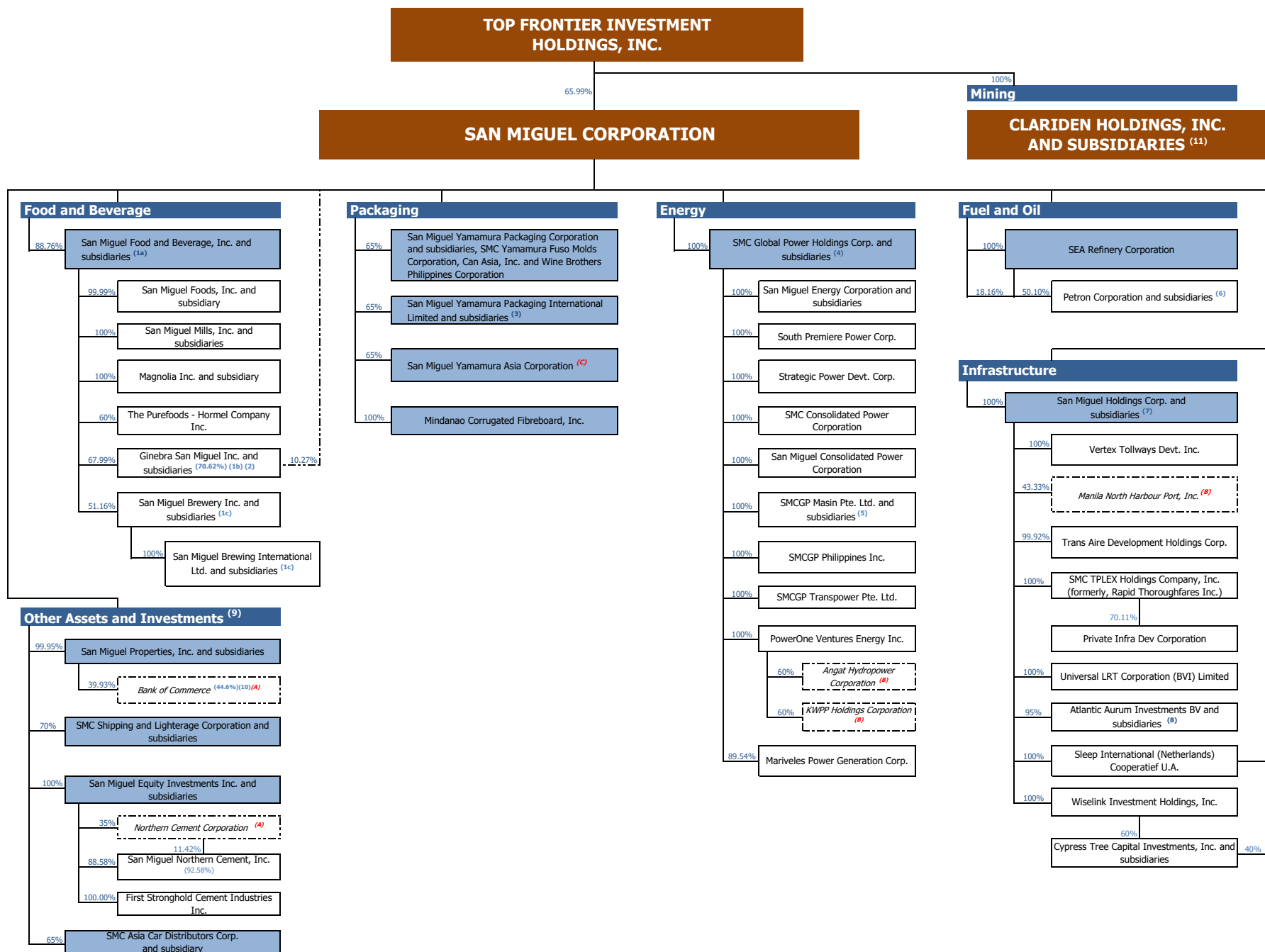
Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION GROUP STRUCTURE *



* 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.

Note:

(A) Associate

(B) Joint Venture

(C) Merged to San Miguel Yamamura Packaging Corporation effective March 1, 2020.

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 Jakarta 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.
2. San Miguel Food and Beverage Inc. owns 67.99% of issued and outstanding common and preferred shares of Ginebra San Miguel Inc. San Miguel Corporation owns the total issued and outstanding preferred shares of Ginebra San Miguel Inc. equivalent to direct ownership of 10.27%. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 70.62% of total issued and outstanding common and preferred 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) and Prime Electric Generation Corporation and subsidiary, Alpha Water and Realty Services, Corp.
5. SMCGP Masin Pte. Ltd. subsidiaries include Strategic Holdings B.V., SMCGP Masinloc Partners Company Limited, SMCGP Philippines Energy Storage Co. Ltd., SMCGP Masinloc Power Company Limited, Transpower Holdings B.V., and Masinloc Power Partners Co. Ltd. SMCGP Masin Pte. Ltd. is in the process of liquidation as of December 31, 2019. Strategic Holdings B.V. and Transpower Holdings B.V. were liquidated effective March 31, 2020 and the deregistration process was completed on April 14, 2020.
6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), 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, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc., San Miguel Aerocity Inc. and Luzon Clean Water Development Corporation.
8. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and 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., 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).



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

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Corporation (the Company) as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

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

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In Millions)

Unappropriated Retained Earnings, January 1, 2019	P500,940
Adjustments:	
<i>(see adjustments in previous year's reconciliation)</i>	(402,732)
Adjustments due to Philippine Financial Reporting Standards 16	(25)
Unappropriated retained earnings as adjusted, January 1, 2019	98,183
Add: Net income actually earned/realized during the period	
Net income during the period closed to retained earnings	3,023
Deferred tax assets	2,312
Net income actually earned during the period	5,335
	103,518
Less: Dividend declared during the period	(10,524)
Total Unappropriated Retained Earnings Available for Dividend Declaration, December 31, 2019	P92,994



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

REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards and may not be comparable to similarly titled measures presented by other companies.

This supplementary information is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2019 and 2018 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2019 and 2018 for operating efficiency ratios.

	December 31	
	2019	2018
<u>Liquidity:</u>		
Current Ratio	1.46	1.36
Quick Ratio	0.96	0.86
<u>Solvency:</u>		
Debt to Equity Ratio	2.16	2.28
Asset to Equity Ratio	3.16	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.36%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
Return on Assets	2.67%	2.90%
<u>Operating Efficiency:</u>		
Volume Growth	3%	8%
Revenue Growth	0%	24%
Operating Margin	11%	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	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
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	$\frac{\text{Net Income}}{\text{Total Assets}}$

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2019**

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- LONG-TERM DEBT	
E	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
F	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
G	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2019
(Amounts in Millions, except No. of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2019	Income (Loss) Received and Accrued
Cash and cash equivalents	-	₱ 286,457	Not applicable	₱ 9,575
Trade and other receivables - net	-	136,488	Not applicable	387
Derivative assets	-	1,158	Not applicable	(3,308) *
Financial assets at FVPL	-	284	Not applicable	30
Financial assets at FVOCI**	-	41,907 ₱	41,907	1,894
Financial assets at amortized cost**	-	257	257	11
Noncurrent receivables and deposits - net	-	28,784	Not applicable	86
Restricted cash	-	12,423	Not applicable	219
		₱ <u>507,758</u>	₱ <u>42,164</u>	₱ <u>8,894</u>

* This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.

** The number of shares or principal amounts of bonds and notes are presented in ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS.

See Notes 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2019
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
San Miguel Corporation		
Alabang Country Club	7 P	50
Alta Vista Golf and Country Club	2	1
Apo Golf & Country Club	3	-
Baguio Country Club	1	3
Bancom Group Inc	999,546	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	5
Capitol Hills Golf & Country Club	1	-
Carmen Red Ltd.	-	5,139
Casino Espanol de Manila	2	-
Cebu Country Club	1	7
Celebrity Sports Plaza	3	-
Club Filipino	8	3
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	12
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	188
Manila Polo Club	2	50
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	174
Merchant Investment	41,660	-
Metropolitan Club	2	1
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	-
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	2
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	1
Sta Elena Properties	7	5
Sta Elena Golf Club	1	5
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	1
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	8
Top Frontier Holdings, Inc. - Common	2,561,031	529
Top Frontier Holdings, Inc. - Preferred	1,904,540	35,425
Universal Leisure Club	1	-
Valle Verde Golf Club	53	16
Valley Golf Club Inc.	2	2
Victorias Country Club	1	-
Petron Corporation		
Government Security	-	226
Aboitiz Power Bonds	28	29
ABOITIZ EQUITY VENTURES, INC. (AEV 11-20)	37	38
Ayala Bond	75	76
SM Investments Corporation Bond	50	51
San Miguel International Limited		
Others	-	-
San Miguel Properties, Inc.		
Apo Golf & Country Club	1	1
Mimosa Golf & Country Club	4	2
Sta. Elena Golf & Country Club	1	5
Metro Club	1	-
Phil. Long Distance Tel Co		-
Meralco	91,011	1
Riviera Golf Course and Country Club	1	4
Tagaytay Midlands Country Club	1	1

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
San Miguel Paper Packaging Corp.		
Phil Long Distance Tel.	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
San Miguel Yamamura Asia Corporation		
Manila Southwoods Golf & Country Club	1	1
Orchard Golf and Country Club	1	1
Evercrest Golf & Country Club	1	-
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	2
Manila Southwoods Golf and Country Club	1	2
Orchard Golf & Country Club	1	2
Puerto Azul Golf Club	1	-
Riviera Golf Course and Country Club	1	-
Mindanao Corrugated Fibreboard, Inc.		
Apo Golf Country Club	1	-
Food and Beverage Group		
Club Filipino	2	1
Makati Sports Club, Inc.	2	2
Philippine Long Distance Tel. Co.	5,753	-
Valle Verde Country Club	1	1
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	7
Golf Club Bogor Raya	1	-
Manila Southwoods Golf & Country Club	1	1
Sta Elena Golf Club	1	6
Manila Electric Co.	14,895	-
Tagaytay Highland Golf and Country Club	1	1
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	1
HSBC Holdings	20,400	8
Pacific Club Kowloon	1	7
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	9
Hong Kong Football Club	1	6
Discovery Bay Golf Club	1	9
San Miguel Holdings Corp.		
Architectural Center Club Inc	1	-
Philippine Expressway Support Service Inc	1	-
Phil Am Properties	1	-
San Miguel Global Power		
Philippine Treasury Bill	-	
Total Financial Assets	P	42,164

See Notes 4, 11, 13, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	₱ 31,382	₱ -	₱ -	₱ -	₱ 31,382	₱ 31,382	₱ -	₱ 31,382
San Miguel Holdings Corp. and Subsidiaries	24,202	1,401	(3,286)	-	22,317	22,275	42	22,317
San Miguel Corporation	1,522	7,350	(2,967)	-	5,905	5,905	-	5,905
San Miguel Food and Beverage, Inc. and Subsidiaries	6,200	34,712	(32,822)	-	8,090	8,001	89	8,090
SMC Asia Car Distributors Corp.	3,663	(2,816)	(837)	-	10	10	-	10
Challenger Aero Air Corporation	5,417	1,299	(800)	-	5,916	5,387	529	5,916
Fortunate Land Inc. and a Subsidiary	2,010	-	-	-	2,010	-	2,010	2,010
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,188	3,538	(3,914)	-	812	812	-	812
San Miguel International Limited and Subsidiaries	1,039	3,726	(3,227)	-	1,538	652	886	1,538
San Miguel Yamamura Asia Corporation	866	5,069	(5,259)	-	676	676	-	676
SMC Shipping and Lighterage Corporation and Subsidiaries	1,948	12,028	(12,867)	-	1,109	1,109	-	1,109
Petron Corporation and Subsidiaries	914	5,630	(5,532)	-	1,012	1,012	-	1,012
Advantage Properties Corporation	546	-	-	-	546	546	-	546
San Miguel Beverages, Inc.	656	-	(19)	-	637	637	-	637
SMC Global Power Holdings Corp. and Subsidiaries	555	33,235	(33,277)	-	513	491	22	513
San Miguel Paper Packaging Corp.	427	-	(33)	-	394	10	384	394
San Miguel Campo Carne Corporation	398	-	-	-	398	398	-	398
San Miguel Properties, Inc. and Subsidiaries	263	(9)	(61)	-	193	193	-	193
Pacific Central Properties, Inc.	227	14	(22)	-	219	218	1	219
Archen Technologies, Inc.	208	48	(247)	-	9	9	-	9
San Miguel Equity Investments, Inc. and Subsidiaries	3,010	5,234	(6,660)	-	1,584	1,584	-	1,584
SMC Equivest Corporation	975	(975)	-	-	-	-	-	-
Others	6,897	4,851	(7,574)	-	4,174	2,655	1,519	4,174
	<u>₱ 94,513</u>	<u>₱ 114,335</u>	<u>₱ (119,404)</u>	<u>₱ -</u>	<u>₱ 89,444</u>	<u>₱ 83,962</u>	<u>₱ 5,482</u>	<u>₱ 89,444</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 71,412	₱ 17,961	₱ (22,320)	₱	₱ 67,053	₱ 62,470	₱ 4,583	₱ 67,053
San Miguel International Limited and Subsidiaries	704	4,457	(4,630)		531	531	-	531
San Miguel Holdings Corp. and Subsidiaries	1,134	8,936	(5,054)		5,016	5,016	-	5,016
SMC Shipping and Lighterage Corporation and Subsidiaries	3,033	15,004	(15,326)		2,711	2,711	-	2,711
San Miguel Yamamura Asia Corporation	1,560	5,831	(5,120)		2,271	1,376	895	2,271
San Miguel Yamamura Packaging Corp. and Subsidiaries	5,367	862	(2,632)		3,597	3,467	130	3,597
SMC Global Power Holdings Corp. and Subsidiaries	5,522	4,075	(8,641)		956	956	-	956
Petron Corporation and Subsidiaries	2,051	7,787	(8,708)		1,130	1,130	-	1,130
San Miguel Food and Beverage, Inc. and Subsidiaries	861	2,456	(1,528)		1,789	1,713	76	1,789
Archen Technologies, Inc.	559	2,430	(2,089)		900	900	-	900
SMITS, Inc. and Subsidiaries	570	1,737	(1,776)		531	445	86	531
San Miguel Properties, Inc. and Subsidiaries	106	714	(692)		128	128	-	128
Others	1,634	5,608	(4,411)		2,831	2,397	434	2,831
	<u>₱ 94,513</u>	<u>₱ 77,858</u>	<u>₱ (82,927)</u>	<u>₱ -</u>	<u>₱ 89,444</u>	<u>₱ 83,240</u>	<u>₱ 6,204</u>	<u>₱ 89,444</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TTLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company													
<u>Peso denominated:</u>													
Fixed	Philippine Depository and Trust Corp.	P 60,000	P -	P -	P -	60,000	(500)	P 59,500	59,500	4.8243%, 5.1923%, 5.2840%, 5.55% 5.7613%, 6.25%, 6.625% and 7.125%	Bullet	Quarterly	March 2022, April 2022, March 2023, March 2024, March 2025, March 2027 and March 2028
Fixed	Philippine Depository and Trust Corp.	10,000	10,000	(25)	9,975	-	-	-	9,975	5.25%	Bullet	Quarterly	May 2020
Fixed	BDO Unibank, Inc.	15,920	160	(1)	159	15,760	(112)	15,648	15,807	6.9375%	Amortized	Quarterly	June 24, 2026
<u>Foreign currency - denominated</u>													
Fixed	DB Trustees (Hong Kong) Limited	26,147	-	-	-	26,147	(128)	26,019	26,019	4.875%	Bullet	Semi-annual	April 2023
	Standard Chartered Bank (Hongkong) Limited as Agent	20,254	-	-	-	20,254	(311)	19,943	19,943	LIBOR + margin	Bullet	1/3/6 months	March 2023
Floating	Various foreign banks	15,190	-	(35)	(35)	15,190	(85)	15,105	15,070	LIBOR + margin	Bullet	1/3/6 months	October 2020, 2022 and 2024
Floating	Various foreign banks	15,190	-	-	-	15,190	(201)	14,989	14,989	LIBOR + margin	Bullet	1/3/6 months	June 2023
	Sumitomo Mitsui Banking Corporation												
Floating	Singapore Branch	15,191	4,051	-	4,051	11,140	(219)	10,921	14,972	LIBOR + margin	Bullet	1/3/6 months	September 2023
Floating	Mizuho Bank, Ltd.	10,127	-	-	-	10,127	(146)	9,981	9,981	LIBOR + margin	Bullet	1/3/6 months	November 2023
	Standard Chartered Bank (Hongkong) Limited as Agent	2,532	-	-	-	2,532	(168)	2,364	2,364	LIBOR + margin	Bullet	1/3/6 months	September 2024
		<u>190,551</u>	<u>14,211</u>	<u>(61)</u>	<u>14,150</u>	<u>176,340</u>	<u>(1,870)</u>	<u>174,470</u>	<u>188,620</u>				
Subsidiaries													
<u>Peso denominated:</u>													
<u>Petron Corporation</u>													
Fixed	Philippine Depository and Trust Corp.	13,000	-	-	-	13,000	(53)	12,947	12,947	4.0032%	Bullet	Quarterly	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	-	-	7,000	(41)	6,959	6,959	4.5219%	Bullet	Quarterly	October 2023
Fixed	Philippine Depository and Trust Corp.	13,200	-	-	-	13,200	(131)	13,069	13,069	7.8183%	Bullet	Quarterly	April 2024
Fixed	Philippine Depository and Trust Corp.	6,800	-	-	-	6,800	(70)	6,730	6,730	8.0551%	Bullet	Quarterly	October 2025
		<u>40,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>(295)</u>	<u>39,705</u>	<u>39,705</u>				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository and Trust Corp.	35,000	-	-	-	35,000	(301)	34,699	34,699	5.375%, 6.25%, 6.625% and 6.75%	Bullet	Quarterly	December 2022, August 2023, December 2024 and December 2027
Fixed	Philippine Depository and Trust Corp.	30,000	-	-	-	30,000	(331)	29,669	29,669	6.8350%, 7.1783% and 7.6000%	Bullet	Quarterly	April 2022, April 2024 and April 2026
<u>SM Brewery Inc.</u>													
Fixed	Bank of the Philippine Islands	10,000	-	-	-	10,000	(75)	9,925	9,925	4.63%	Bullet	Quarterly	December 2024
Fixed	Philippine Depository & Trust Corp.	7,000	-	-	-	7,000	(21)	6,979	6,979	6.60%	Bullet	Semi-annual	April 2022
<u>SM Brewery Inc.</u>													
Fixed	Philippine Depository & Trust Corp.	12,462	-	-	-	12,462	(26)	12,436	12,436	5.50%	Bullet	Semi-annual	April 2021
Fixed	Philippine Depository & Trust Corp.	2,538	-	-	-	2,538	(12)	2,526	2,526	6.00%	Bullet	Semi-annual	April 2024
		<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>(38)</u>	<u>14,962</u>	<u>14,962</u>				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository & Trust Corp.	6,153	-	-	-	6,153	(23)	6,130	6,130	4.3458%	Bullet	Quarterly	July 2021
Fixed	Philippine Depository & Trust Corp.	4,091	-	-	-	4,091	(25)	4,066	4,066	4.7575%	Bullet	Quarterly	July 2023
Fixed	Philippine Depository & Trust Corp.	4,756	-	-	-	4,756	(38)	4,718	4,718	5.1792%	Bullet	Quarterly	July 2026
		<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>(86)</u>	<u>14,914</u>	<u>14,914</u>				
<u>South Luzon Tollway Corporation</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	7,300	2,400	(4)	2,396	4,900	(31)	4,869	7,265	4.9925%, 5.5796% and 6.4872%	Bullet	Quarterly	August 2020, May 2022 and May 2025
<u>SMC Consolidated Power Corporation</u>													
Fixed	Philippine National Bank as Trustee	41,900	1,510	(79)	1,431	40,390	(547)	39,843	41,274	6.2836%, 6.5362%, and 7.3889%	Amortized	Quarterly	June 2029
<u>Citra Central Expressway Corp.</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	8,700	191	(12)	179	8,509	(62)	8,447	8,626	6.865%, 6.87%, 6.9283%, 7.4817%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	3,200	70	(6)	64	3,130	(28)	3,102	3,166	8.0589%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	19,100	418	(34)	384	18,682	(182)	18,500	18,884	8.696%, 9.0260%, 9.4679%, 9.8080 % and 9.8754%	Amortized	Quarterly	August 2027
		<u>31,000</u>	<u>679</u>	<u>(52)</u>	<u>627</u>	<u>30,321</u>	<u>(272)</u>	<u>30,049</u>	<u>30,676</u>				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TTLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>San Miguel Consolidated Power Corporation</u>													
Fixed	Rizal Commercial Banking Corp - Trust & Investments Group	P 20,004	P 1,296	P (39)	P 1,257	P 18,708	P (296)	P 18,412	P 19,669	7.7521% and 6.5077%	Amortized	Quarterly	August 2030
<u>SMC Global Power Holdings Corp.</u>													
Fixed	BDO Unibank, Inc.	14,700	150	(22)	128	14,550	(81)	14,469	14,597	6.9265%	Amortized	Quarterly	April 2024
<u>Petron Corporation</u>													
Fixed	BDO Unibank, Inc.	10,179	2,143	(16)	2,127	8,036	(27)	8,009	10,136	5.5276%	Amortized	Quarterly	July 2024
<u>Atlantic Aurum Investments Philippines Corporation</u>													
Fixed	Philippine National Bank as Trustee	17,300	346	(32)	314	16,954	(548)	16,406	16,720	5.9970%	Amortized	Quarterly	December 2029
<u>Private Infra Dev Corporation</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	12,000	360	(12)	348	11,640	(78)	11,562	11,910	5.6276%	Amortized	Quarterly	September 2029
<u>Petron Corporation</u>													
Fixed	Bank of the Philippine Islands	7,500	2,500	(11)	2,489	5,000	(10)	4,990	7,479	5.7584%	Amortized	Quarterly	December 2022
<u>Vertex Tollways Devt. Inc.</u>													
Fixed	Philippine National Bank as Trustee	5,819	788	(12)	776	5,031	(28)	5,003	5,779	6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567%	Amortized	Quarterly	February 2025
<u>Luzon Clean Water Development Corporation</u>													
Fixed	Asia United Bank Corporation - Trust and Investment Group as Trustee	4,179	84	(4)	80	4,095	(32)	4,063	4,143	8.4211%, 8.699%, 9.278% and 9.885%	Amortized	Quarterly	March 2030
<u>Petron Corporation</u>													
Fixed	Union Bank of the Philippines	3,000	1,000	(3)	997	2,000	(2)	1,998	2,995	5.4583%	Amortized	Quarterly	October 2022
<u>MTD Manila Expressways Inc.</u>													
Fixed	Standard Chartered Bank, Philippines Branch as Security Agent	392	392	(1)	391	-	-	-	391	8.6615%	Amortized	Semi-annual	March 2020
<u>Star Infrastructure Development Corporation</u>													
Fixed	Philippine National Bank as Trustee	1,818	472	(4)	468	1,346	(4)	1,342	1,810	6.6583%	Amortized	Quarterly	June 2023
<u>SMC Shipping and Lighterage Corporation</u>													
Fixed	Union Bank of the Philippines	1,500	-	-	-	1,500	(2)	1,498	1,498	5.000%	Bullet	Quarterly	July 2021
<u>Ginebra San Miguel Inc.</u>													
Fixed	Union Bank of the Philippines	882	235	(2)	233	647	(3)	644	877	8.3480%	Amortized	Quarterly	September 2023
<u>San Miguel Yamamura Asia Corporation</u>													
Floating	Philippine National Bank	3,760	533	(9)	524	3,227	(11)	3,216	3,740	BVAL + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	July 2023
<u>Trans Aire Development Holdings Corp.</u>													
Floating	Bank of Commerce	2,360	479	(2)	477	1,881	(2)	1,879	2,356	BVAL + margin	Amortized	Quarterly	October 2022
<u>San Miguel Foods, Inc.</u>													
Floating	Bank of the Philippine Islands	10,000	-	-	-	10,000	(75)	9,925	9,925	BVAL + margin or BSP TDF + margin whichever is higher	Amortized	Quarterly	December 2029
<u>San Miguel Mills, Inc.</u>													
Floating	Bank of the Philippine Islands	2,000	-	-	-	2,000	(15)	1,985	1,985	BVAL + margin or BSP TDF + margin whichever is higher	Amortized	Quarterly	December 2026
<u>San Miguel Yamamura Asia Corporation</u>													
Floating	Philippine National Bank	551	22	-	22	529	(4)	525	547	BVAL + margin	Amortized	Monthly	December 2024

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>Foreign currency - denominated</u>													
<u>Petron Corporation</u>													
Floating	Standard Chartered Bank (Hongkong) Limited as Agent	P 33,130 P	11,429 P	(162) P	11,267 P	21,701 P	(114) P	21,587 P	32,854	LIBOR + margin	Amortized	1, 3, or 6 months	June 2022
Floating	Standard Chartered Bank (Hongkong) Limited as Agent	40,508	-	-	-	40,508	(600)	39,908	39,908	LIBOR + margin	Amortized	1, 3, or 6 months	May 2024
<u>SMC Global Power Holdings Corp.</u>													
Floating	Standard Chartered Bank (HongKong) Limited as Agent	35,445	-	-	-	35,445	(521)	34,924	34,924	LIBOR + margin	Bullet	Monthly	March 2021 and March 2023
<u>Masiniac Power Partners Co. Ltd.</u>													
Fixed	Philippine National Bank as Trustee	28,189	2,467	(50)	2,417	25,722	(304)	25,418	27,835	4.7776% and 5.5959%	Amortized	Semi-annual	January 2023 and December 2030
Floating	Philippine National Bank as Trustee	9,319	819	(16)	803	8,500	(85)	8,415	9,218	LIBOR + margin	Amortized	Semi-annual	January 2023 and December 2030
<u>San Miguel Yamamura Australasia PTY. Ltd</u>													
Floating	MUFG Bank Ltd. as Agent	2,835	89	(9)	80	2,746	(34)	2,712	2,792	LIBOR + margin	Amortized	Quarterly	July 2024
<u>INSA Alliance Sdn. Bhd.</u>													
Floating	MAYBANK	6	2		2	4		4	6	COF + margin	Amortized	Monthly	December 2022
Floating	Hong Leong Bank Berhad	2	1		1	1		1	2	COF + margin	Amortized	Monthly	July 2021
Floating	Hong Leong Bank Berhad	2	1		1	1		1	2	COF + margin	Amortized	Monthly	September 2021
Floating	MAYBANK	18	2		2	16		16	18	COF + margin	Amortized	Monthly	October 2027
		28	6	-	6	22	-	22	28				
		499,598	30,199	(541)	29,658	469,399	(4,873)	464,526	494,184				
Total Long-term Debt													
		P 690,149 P	44,410 P	(602) P	43,808 P	645,739 P	(6,743) P	638,996 P	682,804				

See Notes 5, 21, 30, 33, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
December 31, 2019

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS *	NUMBER OF SHARES HELD BY:	
					AFFILIATES	DIRECTORS, OFFICERS AND EMPLOYEES	
ISSUED SHARES							
COMMON STOCK	3,790,000,000	3,288,649,125	904,752,537	2,383,896,588	134,641,564	16,395	8,349,920
SERIES "1" PREFERRED SHARES	300,000,000	279,406,667	-	279,406,667	-	-	-
SERIES "2" PREFERRED SHARES	1,910,000,000	1,758,099,686	655,873,286	1,102,226,400	-	-	1,050,600
	6,000,000,000	5,326,155,478	1,560,625,823	3,765,529,655	134,641,564	16,395	9,400,520

* See Notes 24, 36, 37 and 39 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
DECEMBER 31, 2019
(In Millions)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	86,794	63,321	8,510	2,415	853	11,695
Non-trade	47,205	23,884	1,972	448	1,329	19,572
Others	15,177	13,826	390	14	23	924
Total	149,176	101,031	10,872	2,877	2,205	32,191
Less allowance for impairment losses	12,688					
Net	136,488					

ANNEX “D”

SAN MIGUEL CORPORATION
2019
List of Properties

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
FOOD AND BEVERAGE BUSINESS						
1	SAN MIGUEL BREWERY, INC.					
	A. DOMESTIC					
	Head Office					
	Office Space	40 San Miguel Ave., Mandaluyong City	Owned	Good		
	Production Facilities					
	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- 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
	Sales/Area Offices and Warehouses					
	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		
	Carlatan 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		
		San Andres St., San Angelo Subdivision, Sto. Domingo, Angeles City, Pampanga	Owned	Good		
	Region Office (Angeles Sales Office)	Brgy. 22, San Guillermo, San Nicolas, Ilocos Norte	Owned	Good		
	Central North Luzon Area	Brgy. Tablac, Candon City, Ilocos 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 (In PhP, Unless Otherwise Indicated)	Expiry of Lease 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 Calderon 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, 2020	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, 2020	Renewable upon mutual agreement of both parties
Valenzuela Sales Office	#2 Trinidad St. Brgy. Canumay, Valenzuela City	Warehouse - rented	Good	383,928.57	October 31, 2020	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 (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Warehouse	685 Tandang Sora Ave., Quezon City	Warehouse-Rented	Good	118,571.43	May 30, 2020	The Contract is subject to renewal or extension under such terms and conditions as may mutually agreed upon between the parties in writing.
	Warehouse	No. 344 A. Rodriguez, Manggahan, Pasig City	Warehouse-Rented	Good	261,958.43	November 30, 2020	The Contract is subject to renewal or extension under such terms and conditions as may mutually agreed upon between the parties in writing.
	Warehouse	M. Carreon St., Brgy. 864, Sta. Ana District, Manila	Warehouse-Rented		283,892.40	June 15, 2020	After the lease contract has expired and the Lessee still continues to be in possession of the subject property, the Lessee shall have the priority to extend and renew the lease contract agreement under the same terms and condition unless and until a new contract or renewal hereof has been executed.
	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
	Warehouse (Las Piñas Sales Office)	98 Marcos Alvarez Ave. Talon Uno, Las Piñas City	Warehouse-Rented	Good	212,147.04	March 31, 2020	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	Dasmarinas S.O. - Brgy. Langkaan II, Governors Drive, Dasmarinas, 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, 2020	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, 2020	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, 2020	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, 2020	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Liloy Sales Office	Liloy S.O. - Baybay, Liloy, Zamboanga del Norte	Warehouse-Rented	Good	44,642.86	September 30, 2020	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, 2020	Renewable upon mutual agreement of both parties
	Terminal						
	Bataan Malt Terminal (land, building, machineries & equipment, furnitures & fixtures)	Mariveles, Bataan	Building & Facilities- Owned; Land-Rented	Good	661,029.65	April 30, 2025	Renewable upon mutual agreement of both parties
	Investment Properties	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. INTERNATIONAL						
	Breweries						
	San Miguel Beer (Thailand) Ltd.	89 Moo2, Tiwanon Rd., Baan Mai, Muang , Pathumtani 12000, Thailand	Owned	Good			
	PT Delta Jakarta 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
	Sales/Area Offices and Warehouses						
	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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	San Miguel Brewery Hong Kong Limited	9 th 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
	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 San Miguel Brewery Co. Ltd.						
	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	April 30, 2020	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 11, 2020	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	December 31, 2020	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	October 31, 2020	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\$39,000.00	January 14, 2020	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, 2020	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
	Baobei Office	7-1-402, Shangpin Dongfang, Gaobeidian ,Baoding City,Hebei Province, China	Office Space-Rented	Good	RMB 1,400.00	May 15, 2020	Renewable upon mutual agreement of both parties
	Baonan Office	10-13-704, Mingyuehaoyuan,Dingzhou City,Baoding City,Hebei Province, China	Office Space-Rented	Good	CNY 1,200.00	March 13, 2020	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, 2020	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, 2020	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, 2020	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, 2020	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Pattaya sales office	263/91 Moo 12 Tambon Nongprue Banglamung Chonburi	Office Space-Rented	Good	THB 25,263.16	February 28, 2020	Renewable upon mutual agreement of both parties
	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, 2020	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, 2020	Renewable upon mutual agreement of both parties
	Vung Tau Office	215/15 Ba Cu Ward 4, Vung Tau City	Rented	Good	VND 3,000,000.00	March 31, 2020	Renewable upon mutual agreement of both parties
	Power Plant						
	San Miguel Baoding Utility	Shengli street, Tianwei west Road, Baoding City ,Hebei Province, China	Owned	Good			
	Investment Properties						
	Guangzhou San Miguel Brewery	Room 302, Haitao Building, Marine Fisheries Pier, North Binhai Avenue, Haikou City	Owned	Good			
		1th-4th Floor, Xianda Building, Shuichan Pier, North Binhai Avenue, Haikou City	Owned	Good			
2	GINEBRA SAN MIGUEL, INC.						
	A. HEAD OFFICE						
	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 (September 2019 - August 2020); 1,009,518.72 (September 2020 - August 2021)	August 31, 2021	Renewable upon mutual agreement of both parties
	B. NORTH LUZON						
	Plants						
	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			
	Warehouse/Sales Office						
	GSMI Cauayan Sales Office	327 Prenza Highway, San Fermin, Cauayan Isabela	Owned	Good			
	GSMI Cauayan Warehouse 1 & 3	Don Jose Canciller St., Cauayan City, Isabela	Rented	Good	323,425.00	February 29, 2020	Renewable upon mutual agreement of both parties
	GSMI Porac Warehouse and Sales Office	Sta. Cruz, Porac, Pampanga	Rented	Good	272,250.00	December 31, 2019	Renewable upon mutual agreement of both parties (Renewed in 2020)
	GSMI La Union Sales Office	Lee Building, Natl. Hiway, Brgy. Carlatan, San Fernando City, La Union	Rented	Good	17,368.42	December 31, 2019	Renewable upon mutual agreement of both parties (Renewed in 2020)
	GSMI Minien Warehouse	Brgy. Minien East, Sta. Barbara, Pangasinan	Rented	Good	25,000.00	June 30, 2020	Renewable upon mutual agreement of both parties
	GSMI Lunec Warehouse	Brgy. Lunec, Malasiqui, Pangasinan	Rented	Good	778,428.00	February 29, 2020	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	GSMI Malabago Warehouse	Malabago, Mangaldan, Pangasinan	Rented	Good	408,240.00	February 29, 2020	Renewable upon mutual agreement of both parties
	GSMI Cauayan Warehouse	Prenza San Fermin, Cauayan City Isabela	Rented	Good	411,230.00	March 31, 2020	Renewable upon mutual agreement of both parties
	GSMI San Jacinto Warehouse	Brgy. San Vicente, San Jacinto Pangasinan	Rented	Good	130,400.00	April 30, 2020	Renewable upon mutual agreement of both parties
	GSMI Salay Warehouse	National Hi-way Brgy. Salay, Mangaldan Pangasinan	Rented	Good	69,000.00	March 31, 2020	Renewable upon mutual agreement of both parties
	GSMI Calasiao Warehouse	San Miguel Calasiao, Pangasinan	Rented	Good	325,000.00	March 31, 2020	Renewable upon mutual agreement of both parties
	Depot						
	GSMI Alcohol Depots #1 and #2	Brgy. Namonitan, Sto. Tomas (Damortis), La Union	Owned	Good			
	Land						
	GSMI Lingayen Property	Libsong East, Lingayen, Pangasinan	Owned	Good			
	GSMI Olongapo Property	Sta. Rita, Olongapo City, Zambales	Owned	Good			
	C. GMA						
	Warehouse/Sales Office						
	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	850,878.00	June 15, 2020	Renewable upon mutual agreement of both parties
	GSMI Sucat Parañaque Sales Office	#8380 Dr. A. Santos Avenue, BF Homes, Parañaque City	Owned	Good			
	D. SOUTH LUZON						
	Plants						
	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			
	Warehouse/Sales Office						
	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			
	Warehouse	San Marcos, San Pablo City, Laguna	Rented	Good	50,000.00	May 31, 2020	Renewable upon mutual agreement of both parties
	GSMI Sales Admin Office	1080 Dona Aurora Boulevard, Gulang-gulang, Lucena City	Rented	Good	21,292.00 (June 2018 to May 2019), 21,986.00 (June 2019 to May 2020)	November 30, 2020	Renewable upon mutual agreement of both parties
	Warehouse	Brgy. Bago, Ibaan, Batangas	Rented	Good	660,750.00	February 29, 2020	Short-term lease only. Not subject for renewal
	Warehouse	Barangay 42, Rawiz Legazpi City	Rented	Good	126,000.00	March 31, 2020	Short-term lease only. Not subject for renewal
	Warehouse	Brgy. San Roque, Tabaco City	Rented	Good	133,925.00	February 29, 2020	Short-term lease only. Not subject for renewal
	Warehouse	21 San Jose Milaor, Camarines Sur	Rented	Good	283,200.00	March 31, 2020	Short-term lease only. Not subject for renewal
	Warehouse	Brgy. Dita, Sta. Rosa, Laguna	Rented	Good	414,000.00	May 31, 2020	Short-term lease only. Not subject for renewal

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Depot						
	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	September 30, 2020	Renewable at the option of the lessee
	GSMI Alcohol Depot (Tanks 4 & 6)	BBTI, Bauan, Batangas	Rented	Good	720,000.00	July 31, 2020	Renewable at the option of the lessee
	GSMI Alcohol Depot (Tanks 5 & 7)	BBTI, Bauan, Batangas	Rented	Good	720,000.00	September 30, 2020	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
	Land						
	Calamba Sales Office and Warehouse (formerly GSMI HBO Tolling Plant)	Purok 1, Sitio Pulang Lupa, Makiling, Calamba, Laguna	Rented	Good	1,786,794.19 (Jan-Dec 2018); 1,876,133.90 (Jan - Dec 2019); 1,969,940.59 (Jan - Dec 2020)	December 31, 2020	Renewable upon mutual agreement of both parties
	E. VISAYAS						
	Plants						
	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			
	Warehouse/Sales Office						
	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	December 31, 2019	Renewable upon mutual agreement of both parties (Renewed in 2020)
	Depot						
	GSMI Ouano Alcohol Depot	Brgy. Looc, City of Mandaue, Island of Cebu	Owned	Good			
	Land						
	DBI Relocation Site	Brgy. Calumangan, Bago City, Negros Occidental	Owned	Good			
	F. MINDANAO						
	Warehouse/Sales Office						
	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	21,052.63	May 31, 2020	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

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
3	FOOD GROUP						
	Admin Office/Sales Office						
	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			
	Admin Office and Feedmill/Processing Plant/Product Development Laboratory/Warehouse						
	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			
	Bataan Office and Feedmill - 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			
	Farm/Hatchery						
	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			
	Bulacan Hog Farm - Meats	Brgy. Magmarale, San Miguel, Bulacan 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			
	Flourmill/Feedmill						
	Iloilo Feedmill - Feeds	Brgy. Gua-an, Leganes, Iloilo	Owned	Good			
	Isabela Feedmill - Feeds	Bo. Soyung, Echague, Isabela City	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			
	Bulacan Feedmill (San Miguel) - Feeds	Brgy., Magmarale, San Miguel, Bulacan City	Owned	Good			
	Bulacan Feedmill (San Ildefonso) - Feeds	Brgy. Malipampang San Ildefonso, Bulacan	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			

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
Grain Terminal						
Mabini Bulk Grain Handling Terminal - San Miguel Mills, Inc. (GBGTC)	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas City	Owned	Good			
Land						
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			
Processing Plant						
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			
Cavite Meat Plant - Meats	Governor's Drive Bo. Langkaan 1, Dasmariñas 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			
Processing Plant and Cold Storage						
Mandaue Poultry Processing Plant and Cold Storage - SMFI - Poultry	Riverside, Canduman, Mandaue City	Owned	Good			
Warehouse						
Quezon City Warehouse - Purefoods Hormel Company, Inc.	Regalado Ave., Fairview, Quezon City	Owned	Good			
Admin Office						
Laguna Office - Poultry	2nd & 3rd Floor, Anderson Building III, National Hi-way, Brgy. Parian, Calamba City, Laguna	Rented	Good	Jan-July: 734,400.00 Aug-Dec: 856,604.16	July 31, 2021	Renewable every 5 years
Davao Office - Poultry	3rd Floor Alpha Bldg., Lanang Business Park, Lanang, Davao	Rented	Good	287,142.50	August 31, 2020	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, 2020	Renewable every 5 years
Cebu Office - Poultry	5th and 6th Flr., Clotilde Bldg., Casunangan, Mandaue City, Cebu	Rented	Good	178,200.00	June 30, 2020	Renewable every 3 years
Cebu Office - Great Food Solutions and San Miguel Integrated Sales	7th Floor Clotilde Bldg., Casunangan, Mandaue City, Cebu	Rented	Good	29,700.00 (GFS) 59,400.00 (SMIS)	June 30, 2020	Renewable upon mutual agreement of both parties
Laguna Office - Poultry	Denson Whse, Brgy Parian, Calamba, Laguna (Live Logistics Office/Vetmed Whse, Brown Egg)	Rented	Good	166,795.20	November 30, 2021	Renewable every 3 years (Brown Egg) Renewable every 5 years (Vetmed Whse)
Zamboanga Office - Poultry	Don Alfonso Marquez Subd., MCLL Highway Tetuan Zamboanga City	Rented	Good	25,839.82	December 31, 2020	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	353,075.63	June 30, 2021	Renewable every 5 years
Bacolod Office - San Miguel Integrated Sales	William Lines Warehouse, Magsaysay, Araneta St., Singang, Bacolod	Rented	Good	21,780.00	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Dumaguete Office - Poultry	Unit 1-C, JC Building, Ipil Road, Brgy. Daro, Dumaguete City	Rented	Good	31,500.00	October 30, 2021	Renewable every 5 years
	Bacolod Office - Poultry	NFCC Cybercentre Complex, Lacson Cr. Hernaez St., Bacolod City	Rented	Good	226,737.00	June 30, 2022	Renewable every 3 years
	Davao Office - Meats	Marapangi, Toril, Davao City	Rented	Good	7,500.00	July 01, 2022	Renewable upon mutual agreement of both parties
	Mandaue Office - Poultry	245 Subangdaku, Mandaue City	Rented	Good	33,922.77	November 1, 2022	Renewable upon mutual agreement of both parties
	Batangas Office - Poultry	San Roque, Sto Tomas, Batangas	Rented	Good	17,000.00	April 30, 2020	Renewable every 3 years
	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	45,823.22	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	21,000.00	November 30, 2024	Renewable every 5 years
Admin Office and Cold Storage/Processing Plant/Warehouse							
	Bohol Admin Office, Cold Storage and Warehouse - Poultry	Eastern Poblacion, Albuquerque, Bohol	Rented	Good	7,200.00 (Office) 21,250.00 (Cold Storage/Warehouse)	November 30, 2022 (Office) June 30, 2020 (Cold Storage, Warehouse)	Renewable every 3 years
	Butuan Office and Cold Storage - Agro Industrial Cluster and Poultry	Km 9 Tag-ibo Butu-an	Rented	Good	7,464.29 (Office) 451,285.12 (Cold Storage)	March 31, 2023 (Office - Agro Industrial Cluster) December 31, 2023 (Cold Storage - Poultry)	Renewable every 3 years (Office) Renewable every 3 years (Cold Storage)
	Misamis Occidental Office and Cold Storage - Agro Industrial Cluster and Poultry	Mailen, Clarin, Misamis Occidental	Rented	Good	14,279.18 (Office) 271,293.72 (Cold Storage)	December 31, 2021 (Office) December 31, 2021 (Cold Storage)	The Lessee maybe pre-terminate the Contract without cause by giving a sixty (30) days prior written notice to the Lessor (Office) Negotiations for the renewal of this Agreement shall commence six (6) months before the the expiry date. The decision to renew or not to renew should be made by the parties within a period not exceeding three (3) months from date of expiry (Cold Storage)
	Valenzuela Office and Cold Storage - Poultry	No. 1787 East Service Rd. Lawang Bato, NLEX Valenzuela	Rented	Good	62,234.91 (Office) 2,363,116.88 (Cold Storage)	June 30, 2020	Renewable every 2 years

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Camarines Sur Office, Quality Assurance Office and Processing Plant - Agro Industrial Cluster and Poultry	Sta. Rita Industrial Estate, Sagurong, Pili, Camarines Sur	Rented	Good	57,500 (Office AIC) 548,500.00 (Office - Poultry) 267,857.14 (QA Office - Poultry) 1,640,821.00 (Cold Storage - Poultry) 553,797.00 (Holding Room - Poultry) 383,699.68 (Cold Storage - Meats)	November 30, 2020 (Office AIC) Continuing unless terminated and agreed by both parties (QA Office) December 31, 2021 (Cold Cold Storage - Poultry, Holding Room - Poultry and Cold Storage - Meats)	Renewable annually (Office & QA Office - AIC and SMFI - Poultry) Renewable every 2 years (Cold Storage and Holding Room)
	Iloilo Office and Warehouse - San Miguel Integrated Sales	Iloilo Sales Options, Brgy. Mali-ao Pavia Iloilo, Jentec Storage Corp. Iloilo	Rented	Good	9,000 (Office) 1,440,374.68 (Cold Storage - SMIS) 113,918.23 (Warehouse - Magnolia)	January 1, 2020 (Office) December 31, 2020 (Warehouse SMIS) May 31, 2020 (Magnolia)	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) 1,305,759.45 (Cold Storage)	December 31, 2020	Renewable every 2 years
	Cold Storage						
	Cavite Cold Storage - Magnolia, Inc., Meats and Poultry	Anabu Hills Industrial Estate, Anabu 1-c, Imus Cavite	Rented	Good	1,684,698.97 (Magnolia) 7,267,956.65 (Meats) 317,928.33 (Poultry)	June 30, 2020 (Magnolia) October 31, 2020 (Meats) April 17, 2020 (Poultry)	Renewable every year (Magnolia) Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
	La Union Cold Storage - Meats	Brgy. Lubing, San Juan, La Union	Rented	Good	181,500.00	June 15, 2022	Renewable upon mutual agreement of both parties
	Negros Oriental Cold Storage - Meats and Poultry	Bolocboloc Sibulan Negros Oriental	Rented	Good	1,150,087.47 (Meats) 577,170.00 (Poultry)	May 31, 2020 (Meats) June 30, 2021 (Poultry)	Renewable upon mutual agreement of both parties (Meats) Renewable every 3 years (Poultry)
	Tacloban Cold Storage - Meats	Brgy 99 Diit, Maharlika Highway, Tacloban	Rented	Good	224,087.81	September 30, 2020	Renewable upon mutual agreement of both parties
	Davao Cold Storage - Poultry	Daliao, Toril Davao	Rented	Good	4,735,982.52	February 29, 2020	Renewable every 3 years
	Cebu Cold Storage - Poultry	F.E. Zuellig Ave., North Reclamation Area, Mandaue, Cebu	Rented	Good	1,406,449.76	July 31, 2020	Renewable every 3 years (Poultry)
	Misamis Oriental Cold Storage - Poultry	IP4 El Salvador, Misamis Oriental	Rented	Good	1,843,184.15	March 03, 2020	The Lessee maybe pre-terminate the Contract without cause by giving 6 months prior written notice to the Lessor
	Navotas Cold Storage - Poultry and Purefoods Hormel Company, Inc.	Lapu-Lapu Ave. and C3 Road cor. Northbay Blvd., Navotas	Rented	Good	2,336,192.00 (Poultry) 3,185,948.82 (PHC)	September 30, 2020	Renewable every 2 years
	Misamis Oriental Cold Storage - Poultry	Mohon Tagoloan Misamis Oriental	Rented	Good	400,747.62	December 31, 2021	The Lessee maybe pre-terminate the Contract without cause by giving 60 days prior written notice to the Lessor
	Misamis Oriental Cold Storage - Meats	Phividec Industrial Estate, Sugbongcogon, Tagoloan, Misamis Oriental	Rented	Good	47,698.00	February 28, 2021	Renewable upon mutual agreement of both parties (Meats)

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
Palawan Cold Storage - Poultry	Puerto Princesa, Palawan	Rented	Good	417,928.57	December 31, 2021	Renewable every 2 years
Davao Cold Storage - Poultry and Meats	Purok 15, Panungtungan, Tibungco, Davao	Rented	Good	9,272,641.83 (Poultry) 102,189.64 (Meats)	September 30, 2021	Renewable every 3 years
Isabela Cold Storage - Meats	San Pedro, Roxas, Isabela	Rented	Good	75,000.00	February 28, 2023	Renewable every 3 years
Negros Occidental Cold Storage, Warehouse & Laboratory - Poultry	Singko de Noviembre St., Silay City, Negros Occidental	Rented	Good	628,404.88 (Cold Storage) 74,067.33 (Warehouse & Laboratory)	March 31, 2021 (Warehouse) March 31, 2020 (Cold Storage)	Renewable every 3 years
Pangasinan Cold Storage - Poultry	Brgy. Mabilao, San Fabian, Pangasinan 2433	Rented	Good	204,984.00	September 30, 2020	Renewable upon mutual agreement of both parties
Bacolod Cold Storage Poultry & SMIS	Calong-calong, Airport Subd, Brgy Singcang, Bacolod City	Rented	Good	145,600.38 (Poultry) 750,327.01 (SMIS)	July 1, 2020 (Poultry) September 30, 2020 (SMIS)	Renewable every 3 years
Cebu Cold Storage - Meats	Sitio, Libo Tayud, Consolacion Cebu	Rented	Good	1,031,599.25	July 31, 2020	Renewable upon mutual agreement of both parties
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	Rented	Good	938,936.00	June 30, 2021	Renewable upon mutual agreement of both parties
Cagayan De Oro Cold Storage - San Miguel Integrated Sales	Zone 4, Tin-ao Brgy. Agusan, Cagayan de Oro City	Rented	Good	82,307.12	September 30, 2020	Renewable upon mutual agreement of both parties
Pasig Cold Storage - San Miguel Integrated Sales	VCGT Compound, Amang Rodriguez Ave., Mangahan Pasig	Rented	Good	8,937,430.91	June 30, 2020	Renewable upon mutual agreement of both parties
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	1,996,268.14	June 30, 2020	Renewable upon mutual agreement of both parties
Pampanga Cold Storage - SMIS	Gloria 1 Sindalan, San Fernando, Pampanga	Rented	Good	4,998,818.38	June 30, 2020	Renewable upon mutual agreement of both parties
Isabela Cold Storage - Meats	San Luis, Cauayan, Isabela	Rented	Good	48,508.95	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
Isabela Cold Storage - Meats	Purok 5 Rizal, Santiago City, Isabela	Rented	Good	336,000.00	December 31, 2020	Renewal every year
Calamba Cold Storage - SMIS	Logistikus, Inc., Bldg 4, Molson Park, CA Yulo Ave, Canlubang Industrial Park, Calamba, Laguna	Rented	Good	5,193,043.92	June 30, 2020	Renewable upon mutual agreement of both parties
Cainta Cold Storage - Magnolia	Mercedes Business Par, Mercedes Ave., Cainta, Rizal	Rented	Good	3,143,685.67	May 31, 2020	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	1,247,424.75	June 30, 2020	Renewable upon mutual agreement of both parties
Cagayan De Oro Cold Storage - SMFI - Poultry	Tablon, Cagayan de Oro City	Rented	Good	661,385.06	March 31, 2020	Renewable upon mutual agreement of both parties
Mandaue Cold Storage - Poultry	Lot 2459-B1&B2 Batiller Street, Barangay Umapad, Mandaue City	Rented	Good	674,722.74	March 31, 2020	Renewable upon mutual agreement of the parties
Cold Storage and Blast Freezing Facility/Holding Room/Laboratory/Warehouse/Processing Plant/Mixes Storage/Office						
Bulacan Cold Storage and Holding Room - Poultry	#95 Landicho St., Brgy. Balasing, Sta. Maria, Bulacan	Rented	Good	175,067.00 (Cold Storage) 178,685.00 (Holding Room)	June 30, 2022	Renewable every 3 years

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Bulacan Cold Storage and Holding Room - Poultry	111 Pulong Gubat, Balagtas Bulacan	Rented	Good	2,391,480 (Cold Storage) 811, 795.00 (Holding Room)	December 31, 2021	Renewable every 2 years
	Pampanga Cold Storage- SMFI - Meats & Mixes Storage - Poultry	888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga	Rented	Good	2,463,965.79 (Cold Storage) 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, Albuera, Leyte	Rented	Good	1,637,614.00 (Cold Storage) 35,000.00 (Office and Labatory)	August 31, 2020	Renewable every 5 years
	Bulacan Cold Storage, Holding Room and Laboratory - Poultry and Office - Meats	Brgy. Caysio, Sta. Maria, Bulacan	Rented	Good	2,308,759 (Cold Storage) 990,746.00 (Holding Room) 30,164.56 (Laboratory) 12,632.79 (Office)	February 28, 20122 (Office) February 28, 2022 (Cold Storage, Holding Room, Laboratory)	Renewable every 3 years (Cold Storage, Holding Room, Laboratory) Renewable upon mutual agreement of both parties (Office)
	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) 72,081.00 (Laboratory)	September 30, 2020	Renewable every 3 years
	Iloilo Cold Storage - Poultry and Meats	Brgy. Sambag Jaro Iloilo	Rented	Good	222,320.61 (Poultry) 148,250.00 (Meats)	June 30, 2020	Renewable every year
	Pampanga Cold Storage, Holding Room and Labatory - Poultry	Brgy. San Isidro, San Simon, Pampanga	Rented	Good	654,877.00 (Cold Storage) 284,680.00 (Holding Room) 54,980.80 (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	2,027,277.28 (Cold Storage) 1,357,245.12 (Holding Room) 37,882.07 (Laboratory)	December 31, 2020 (Cold Storage and Holding Room) September 15, 2022 (Laboratory)	Renewable every 3 years (Cold storage)
	Bataan Cold Storage and Holding Room - Poultry	Brgy. Tumalo, Hermosa, Bataan	Rented	Good	1,440,202.40 (Cold Storage) 1,192,551.36 (Holding Room) 32,215.84 (Labatory)	December 31, 2020	Renewable every 3 years
	Nueva Ecija Cold Storage, Holding Room and Labatory- Poultry	Km104, Brgy Tabuating, San Leonardo, Nueva Ecija	Rented	Good	728,205.66 (Cold Storage) 998,682.72(Holding Room) 24,478.72 (Labatory)	March 8, 2021	Renewable every 3 years
	Isabela Processing Plant - Poultry	Purok 5, Rizal, Santiago City, Isabela	Rented	Good	191,158.97 (Processing Plant Poultry)	September 30, 2020	Renewable every 3 years
	Bulacan Cold Storage - Poultry and Meats and Warehouse - San Miguel Integrated Sales	Rosas Norte, Brgy Saluysoy, Meycauyan, Bulacan	Rented	Good	2,075,073.73 (Poultry) 1,717,778.28 (Meats) 1,541,725.09 (SMIS)	September 30, 2020 (Poultry) September 30, 2020 (Meats) June 30, 2020 (SMIS)	Renewable every 2 years (Poultry) Renewable every 2 years (Meats) Renewable upon mutual agreement of both parties (SMIS)

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Iloilo Cold Storage and Processing Plant - Poultry	Barangay Tungay, Sta. Barbara, Iloilo	Rented	Good	947,433.33 (Cold storage) 34,641.77 (Processing plant)	December 31, 2020	Renewable every 3 years
	Foreshore						
	Mabini Bulk Grain Handling Terminal Foreshore - GBGTC	Brgy. Balibaguhan and Brgy. Bulacan, Mabini, Batangas	Rented	Good	Jan-Feb : 13,965.50 Mar-Dec : 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	4,824.31	August 22, 2024	Lease may be renewed for another 25 years at the option of the DENR
	Land						
	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) 716,214.10 (Plant 2)	December 31, 2054 (Plant 1) 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 : 3,325,757 July -Dec : 3,492,045	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			
	Processing Plant						
	Lipa Dressing Plant - Poultry	Brgy Kayumanggi, Lipa	Rented	Good	694,522.10	February 28, 2020	Renewable every 3 years
	Quezon Processing Plant - Poultry	Brgy Lagalag, Tiaong, Quezon	Rented	Good	2,783,599.00	May 31, 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	1,416,227.58	June 30, 2021	Renewable every 3 years
	Davao Processing Plant - Poultry	Sirawan Toril, Davao	Rented	Good	2,628,000.00	March 31, 2021	Renewable every year
	Davao Dressing Plant - Poultry	Tugbok Dist., Calinan Davao	Rented	Good	10,236,971.13	Continuing unless terminated and agreed by both parties	Renewable every 2 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	1,595,792.28	December 31, 2020	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Davao City Processing Plant - SMFI - Poultry	R.Castillo, Davao City	Rented	Good	2,799,200.00	Continuing unless terminated and agreed by both parties	Renewable every year
	Sales Office						
	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
	Quezon City Sales Office	Unit 108A The Strips AT Blue Residences Katipunan Avenue Loyola Heights 3, Quezon City	Rented	Good	Jan-Oct: 21,080.54 Nov- Dec: 22,763.99	October 31, 2020	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 Pandesal) - 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 (Kambal Pandesal) - SMMI	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
	Selling Outlets						
	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
	Batasan Hills Quezon City Selling Outlet - Foodcrave Marketing, Inc.	030 Filinvest Rd. 1, Batasan Hills, Quezon City	Rented	Good	15,789.47	January 06, 2021	Either party may pre-terminate the contract by giving the other party written notice, at least 30 days prior to the intended date of termination
	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.
	Teacher's Village Quezon City Selling Outlet - Foodcrave Marketing, Inc.	31 Matino St., Teacher's Village, Quezon City	Rented	Good	20,000.00	March 14, 2021	The lessee shall inform the LESSOR if its intent to renew this contract at least one (1) month prior to its expiry date.
	San Isidro Quezon City Selling Outlet - Foodcrave Marketing, Inc.	Unit 103 G/F #Bayani St., San Isidro, Quezon City	Rented	Good	10,000.00	January 31, 2022	renewable upon written advice of the LESSEE not less than two (2) months before expiration and the discretion of the LESSOR.

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Kamuning Quezon City Selling Outlet - Foodcrave Marketing, Inc.	L. Sianghio St. Cor K-3rd St, Kamuning, Quezon City	Rented	Good	25,000.00	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
	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
	Tumana Marikina City Selling Outlet - Foodcrave Marketing, Inc.	Blk 38 Farmers 1 Ave., Tumana, Marikina City	Rented	Good	14,368.42	June 04, 2020	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, 2020	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	26,315.79	August 31, 2020	Continuing unless terminated and agreed by both parties
	Tutkukan Taguig City Selling Outlet - Foodcrave Marketing, Inc.	47 Gen Luna St., Brgy. Tutkukan, Taguig City	Rented	Good	28,037.38	December 19, 2021	Either party may pre-terminate the contract by giving the other party written notice, at least 30 days prior to the intended date of termination
	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
	Brgy Central Signal Village Taguig City Selling Outlet - Foodcrave Marketing, Inc.	42 Ballester St. Zone 8, Barangay Central Signal Village, Taguig City	Rented	Good	18,947.37	September 23, 2021	Continuing unless terminated and agreed by both parties
	Upper Bicutan Taguig City Selling Outlet - Foodcrave Marketing, Inc.	Osano Park A. Bonifacio Ave. corner Chavez St. Upper Bicutan, Taguig City	Rented	Good	20,400.00	September 25, 2021	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
	Vito Cruz Manila Selling Outlet - Foodcrave Marketing, Inc.	City Lofts Condominium, Dominga St., Vito Cruz, Manila	Rented	Good	20,000.00	January 31, 2020	This agreement may be renewed under such terms and conditions as may be mutually agreed upon by both parties, provided, however, that the LESSEE shall manifest in writing its desire to renew at least 1 month before the expiration.
	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.

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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
	Sta. Ana Manila Selling Outlet - Foodcrave Marketing, Inc.	Tejeron, Sta. Ana, Manila	Rented	Good	25,000.00	July 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, 2020	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, 2020	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, 2020	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
	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, 2020	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	18,000.00	July 04, 2022	Continuing unless terminated and agreed by both parties
	Sto. Tomas Batangas City Selling Outlet - Foodcrave Marketing, Inc.	National Highway Sto. Tomas, Batangas City	Rented	Good	10,526.32	December 14, 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	December 03, 2020	Continuing unless terminated and agreed by both 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 29, 2020	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

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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	13,684.21	June 30, 2020	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, 2020	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	10,526.32	January 31, 2020	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.
	TPLEX Northbound Tarlac Selling Outlet - Foodcrave Marketing, Inc.	Petron TPLEX Km 134 Northbound, Poroc Pura, Tarlac	Rented	Good	14,000.00	February 28, 2022	Renewable upon agreement of both parties
	TPLEX Southbound Tarlac Selling Outlet - Foodcrave Marketing, Inc.	Petron TPLEX Km 134 Southbound, Poroc Pura, Tarlac	Rented	Good	14,000.00	February 28, 2022	Renewable upon agreement of both parties
	Sto. Domingo Laguna Selling Outlet - FMI	Orodoveza Business Center, Brgy Sto Domingo Bay, Laguna	Rented	Good	20,000.00	November 01, 2020	Renewable upon agreement of both parties
	Apalit Pampanga Selling Outlet - FMI	132 Sto Nino Subd., San Juan, Apalit, Pampanga	Rented	Good	11,770.00	November 30, 2021	The sublease maybe renewed for another period subject to the terms and conditions as may be mutually agreed upon by the parties.
	Concepcion 1 Marikina City Outlet - FMI	40 L De Guzman St, Concepcion 1, Marikina City	Rented	Good	23,000.00	November 19, 2022	This Contract may be renewed for any period at LESSEE's option upon written agreement of the parties, after written notice to renew is given by LESSEE to LESSOR at least sixty (60) days before the expiry date.
	General Mariano Alvarez Cavite Outlet - FMI	#47B Blk 8 Lot 33, Brgy Poblacion 2, General Mariano Alvarez, Cavite	Rented	Good	15,789.47	October 31, 2021	This Contract may be renewed for any period at LESSEE's option upon written agreement of the parties, after written notice to renew is given by LESSEE to LESSOR at least sixty (60) days before the expiry date.
	San Antonio Pasig Selling Outlet - FMI	9th Floor, Ortigas Bldg, Ortigas Ave, Ortigas Center. Brgy San Antonio, Pasig City	Rented	Good	16,763.40	December 01, 2020	Renewable upon agreement of both parties

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
Sales Office and Cold Storage/Laboratory/Warehouse						
Pangasinan Office, Cold Storage, Processing Plant, Laboratory and Warehouse - Poultry	GTL Compound, San Vicente, San Jacinto, Pangasinan, 2431	Rented	Good	25,000.00 (Office) 1,285,606.50 (Processing Plant, Cold Storage & Holding Area) 30,745.45 (Laboratory) 25,000.00 (Warehouse)	June 30, 2020 (Office, Warehouse) December 31, 2023 (Processing Plant, Cold Storage, Laboratory)	Renewable every 3 years
Warehouse						
Bataan Warehouse - Feeds	10th Avenue, FAB, Mariveles, Bataan	Rented	Good	3,149,496.00	January 31, 2020	Renewable every year
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 every year
Bulacan Warehouse - San Miguel Mills, Inc.	Baliuag, Bulacan	Rented	Good	Jan-Jun: 94,380.00 Jul-Dec: 103,818.00	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 every year
Isabela Warehouse - Feeds	Brgy. Mabini, Alicia Isabela	Rented	Good	1,325,892.86	December 31, 2020	Renewable every year
Pangasinan Warehouse - Feeds	Carmay East, Rosales, Pangasinan	Rented	Good	330,610.00	December 31, 2020	Renewable every year
Pangasinan Warehouse - Feeds	Carmen East, Rosales, Pangasinan	Rented	Good	951,295.29	December 31, 2020	Renewable every year
MMIJOE-Managed Warehouses - Feeds	Diversion Rd., Buhangin, Davao City; Km 10, Sasa, Davao City	Rented	Good	1,021,540.00	December 31, 2020	Renewable every year
SMCSL-Managed Warehouses - Feeds	Manila; Bataan; Batangas; Camarines Sur; Cebu; Iloilo; Bacolod; Cagayan de Oro; Ozamiz; Bukidnon; General Santos; Zamboanga; Davao	Rented	Good	32,971,707.49	December 31, 2020	Renewable upon mutual agreement of both parties
D Meter-Managed Warehouses - Feeds	Cristo Rey Capas, Tarlac 2315; Brgy Bungad, SFDM, Quezon City	Rented	Good	1,558,306.36	June 30, 2021	Renewable every three years
Maybunga Warehouse - San Miguel Mills, Inc.	Jose Ong Street, Maybunga, Pasig	Rented	Good	Jan-May: 422, 460.10 Jun-Dec: 443,582.91	June 14, 2020	Renewable upon mutual written agreement of the parties
Tarlac Warehouse - Feeds	Mabini, Moncada, Tarlac	Rented	Good	298,675.00	December 16, 2020	Renewable every year
Laguna Warehouse - Feeds	Maharlika Highway, Calamba Laguna	Rented	Good	1,676,413.66	May 31, 2020	Renewable every year
Pangasinan Warehouse - Feeds	Nancayasan, Urdaneta, Pangasinan	Rented	Good	284,400.00	December 15, 2020	Renewable every year
Camarines Sur Warehouse - Feeds	Santiago, Pili, Camarines Sur	Rented	Good	221,785.71	December 31, 2020	Renewable every 6 months
Isabela Warehouse - Feeds	Sinabbaran, Echague, Isabela	Rented	Good	2,633,470.00	June 30, 2020	Renewable every year
La Union Warehouse - Feeds	Taboc, San Juan, La Union	Rented	Good	345,446.43	December 31, 2020	Renewable every year
South Cotabato Warehouse - Poultry	Tumbler, Polomolok South Cotabato	Rented	Good	2,962,206.14	March 10, 2020	Renewable every 3 years
Pangasinan Warehouse - Feeds	Urdaneta, Pangasinan	Rented	Good	1,124,800.00	December 31, 2020	Renewable every year
Bukidnon Warehouse - Feeds	Mambatangan, Manolo Fortich, Bukidnon	Rented	Good	766,277.10	December 31, 2020	Renewable every 2 years
Davao Warehouse - San Miguel Integrated Sales and Magnolia	Purok 9 KM 20 Tibungco, Davao City	Rented	Good	2,278,535.57 (SMIS) 165,853.98 (Magnolia)	September 30, 2020 (SMIS) May 31, 2020 (Magnolia)	Renewable upon mutual agreement of both parties
Pasig Warehouse - San Miguel Integrated Sales	Manggahan Light Industrial Park, Manggahan, Pasig City	Rented	Good	1,028,839.06	December 31, 2020	Renewable upon mutual agreement of both parties
Mandaluyong Warehouse - Feeds	979 C. Castaneda Street, Mandaluyong City Metro Manila	Rented	Good	Jan-Jun: 150,000.00 Jul - Dec: 160,000.00	June 30, 2020	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
Cebu Warehouse - San Miguel Integrated Sales and Magnolia	G. Ouano Street, Brgy. Opao, Mandaue City	Rented	Good	1,594,014.64 (SMIS) 157,801.83 (Magnolia)	December 31, 2020 (SMIS) May 31, 2020 (Magnolia)	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Parañaque Warehouse - SMFI - SMIS, SMFI - AIC, SMFI - Great Food Solutions (GFS)	Pacific Coast Plaza Building, 1St Villamor Street, Parañaque	Rented	Good	152,384.80 (SMIS) 16,984.42 (AIC) 51,126.60 (GFS)	December 31, 2020	Mutually be agreed upon between the parties.
	Iloilo Warehouse - Poultry	Cabugao Norte, Sta. Barbara, Iloilo	Rented	Good	93,409.59	July 31, 2020	Renewable every 3 years
	General Santos Warehouse - Feeds	Hadano Avenue, Brgy. Labangal, General Santos City	Rented	Good	1,893,375.00	December 31, 2020	Renewable every year
	Tarlac Warehouse - Magnolia & SMFI - SMIS	LIP Hacienda Luisita San Miguel Tarlac City, Tarlac	Rented	Good	294,202.64 (Magnolia) 164,614.24 (SMIS)	May 31, 2020 (Magnolia) December 31, 2020 (SMIS)	Renewable upon mutual agreement of both parties
	Iloilo Warehouse (Leganes) - Feeds	Brgy. Napnud, Leganes, Iloilo	Rented	Good	2,616,760.35	December 31, 2020	Renewable upon mutual agreement of both parties
	Tarlac Warehouse - Feeds	Brgy. Estrada Capas, Tarlac	Rented	Good	944,864.29	December 31, 2020	Renewable every year
	Cebu Warehouse - Feeds	Sitio Tawagan Brgy. Tayud, Consolacion, Cebu	Rented	Good	1,195,720.50	December 31, 2020	Renewable every year
	Ormoc Warehouse - Feeds	Cogon, Ormoc City, Leyte	Rented	Good	225,000.00	July 15, 2020	Renewable every year
	Batangas Warehouse - Meats	Catleya St. City Park Subdivision, Sabang, Lipa City, Batangas	Rented	Good	8,500.00	December 31, 2020	Renewable upon mutual agreement of both parties
	Camarines Warehouse - Magnolia	Zone 1, Brgy. Caroyroyan, Pili, Camarines Sur	Rented	Good	90,295.05	May 31, 2020	Renewable upon mutual agreement of both parties
	Mandaue Warehouse - SMFI - AIC	M.L. Quezon St., Casuntingan, Mandaue City	Rented	Good	33,922.77	October 31, 2022	Renewable every 3 years
	Mandaue Warehouse - SMFI - Meats	Lot 2459-B1 & B2 Bastiller Street Barangar Umapad, mandaue City Cebu	Rented	Good	28,264.32	March 31, 2020	Renewable every year
	Bulacan Warehouse - SMFI - Feeds	Brgy. Pulong Bayabas, San Miguel Bulacan	Rented	Good	700,000.00	February 29, 2020	Renewable every year
	Pangasinan Warehouse - SMFI - Feeds	San Nicolas, Villasis, Pangasinan	Rented	Good	163,200.00	December 31, 2020	Renewable every year
Others (Blast Freezing Facility/Selling Station/Slaughterhouse)							
	Pampanga Training Facility - San Miguel Mills Inc.	540 New York St. Villasol Subs, Anunas, Angeles City	Rented	Good	20,000.00	August 31, 2020	Renewable upon mutual agreement of both parties
	Nueva Ecija Selling Station - SMFI - Meats	888 Quezon Rd, Brgy. San Isidro, San Simon, Pampanga	Rented	Good	58,000.00	June 30, 2024	Renewable every 5 years
PACKAGING BUSINESS							
	A. DOMESTIC						
1	SAN MIGUEL YAMAMURA PACKAGING CORPORATION						
	SMYPC Main Office, SMYPC Trading and SMYPC Contract Packaging						
	Building / Office Space	San Miguel Properties Centre, Saint Francis St., 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, 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, SMYPC Cebu Beverage Packaging Plant						
	Warehouse	Quano Wharf, Mandaue City	Owned	Good			
	SMYPC Cebu Glass Plant						
	Warehouse	Casuntingan, Mandaue City	Rented	Good	1,365,691.26	December 31, 2020	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Sitio Bangkerohan, Tayud, Consolacion	Rented	Good	453,065.00	July 31, 2020	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouse	Quano Wharf, Mandaue City, Cebu	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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 2, SMC PET Plant)	Owned	Good			
	SMYPC Pet Recycling Plant and SMYPC MCLP San Fernando Plant						
	Land	SMC San Fernando Complex, Quebiauan, San 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	June 2020	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouses	No.10 T. Santiago St., Plastic City Compound, Canumay, Valenzuela City	Rented	Good	172,125.00	December 31, 2019	Renewable for a period in accordance with the mutual written agreement of both parties (Renewed in 2020)
	Warehouse	Sitio Torres, Sta. Cruz, Porac, Pampanga	Rented	Good	176,446.57	December 31, 2019	Renewable for a period in accordance with the mutual written agreement of both parties (Renewed in 2020)
	Warehouse	LIIP-PEZA, Mamplasan, Biñan, Laguna	Rented	Good	1,239,444.64	December 31, 2019	Renewable for a period in accordance with the mutual written agreement of both parties (Renewed in 2020)
	SMYPC Glass Business Office						
	Land	Barrio Halayhay, Tanza, Cavite	Owned	Good			
	SMYPC Manila Plastics Plant						
	Land	Tomas Claudio St., Beata, Pandacan, Manila City	Owned	Good			
	SMYPC Manila Plastics Plant						
	Warehouses	#30, #32, #33 and #34 T. Santiago Street, Canumay, Valenzuela City	Rented	Good	1,271,455.66	December 31, 2020	Annual (Renewed in 2019 until 2020)
	Warehouse	Tomas Claudio Street, Pandacan, Manila City	Rented	Good	308,700.00	November 05, 2024	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	Sta. Mesa Manila	Rented	Good	1,060,714.29	April 14, 2020	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	Rented	Good	574,980.00	July 31, 2020	Renewable for a period in accordance with the mutual written agreement of both parties
2	SAN MIGUEL YAMAMURA ASIA CORPORATION						
	Land	Km 27, Aguinaldo Highway, Imus, Cavite	Owned	Good			
	Land & Warehouse	Canlubang Industrial Estate, Canlubang, Laguna	Owned	Good			
	Warehouse 1 and 2	7001 Aguinaldo Highway, Brgy. Salitran, Dasmariñas City	Rented	Good	2,538,331.60	December 31, 2019 and April 15, 2020	Renewable for a period in accordance with the mutual written agreement of both parties (Renewed in 2020)

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Warehouse	Quezon Road, San Simon, Pampanga	Rented	Good	2,020,000.00	October 31, 2021	Renewable for a period in accordance with the mutual written agreement of both parties
3	SMC YAMAMURA FUSO MOLDS CORPORATION	Governor Dr., Bo. De Fuego, Bgy. San Francisco, Gen. Trias, Cavite	Owned	Good			
4	MINDANAO CORRUGATED FIBREBOARD, INC.						
	Land	Km 12 Sasa, Davao City	Owned	Good			
	Warehouses	Sitio Ilang, Brgy. Tibungco, Davao City	Rented	Good	851,330.20	September 30, 2020	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, 2020	Renewable for a period in accordance with the mutual written agreement of both parties
	Warehouses	Phil Japan Highway, Buhangin, Davao City	Rented	Good	498,000.00	July 16, 2020	Planned to terminate by January 2020
5	CAN ASIA, INC.						
	Land	Bgy. San Francisco de Malabon, Gen. Trias, Cavite	Owned	Good			
	B. INTERNATIONAL						
6	SAN MIGUEL YAMAMURA PACKAGING INTERNATIONAL LTD. AND SAN MIGUEL YAMAMURA 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			
7	ZHAOQING SAN MIGUEL 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	192,855.69	September 30, 2020	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	495,522.11	October 31, 2022	Renewable for a period in accordance with the mutual written agreement of both parties
8	FOSHAN SAN MIGUEL YAMAMURA PACKAGING COMPANY LTD.	3 Dongdi Road, Junan Township, Guangdong Province, PRC	Land Use Rights	Good			
9	SAN MIGUEL YAMAMURA HAIPHONG GLASS COMPANY LTD.	17-A Ngo Quyen St., Ngo Quyen District, Haiphong City, Vietnam	Land Use Rights	Good			
10	SAN MIGUEL YAMAMURA PHU THO PACKAGING COMPANY LTD.	1 Le Van Khuong Street, Hiep Thanh Ward, District 12, Ho Chi Minh City, Vietnam	Land Use Rights	Good			
11	SAN MIGUEL YAMAMURA PLASTICS FILMS SDN. BHD.	No. 172, Jalan Usaha 5, lots 83, 84, 85, 75, 76 Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Owned	Good			
12	SAN MIGUEL YAMAMURA PACKAGING AND PRINTING SDN. BHD. AND PACKAGING RESEARCH 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 (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
13	SAN MIGUEL YAMAMURA WOVEN PRODUCTS SDN. BHD.						
	Office Space	Lot 9 and 10, Jalan Usuha 4, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia Lot 4305, Jalan Usaha 8, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Owned	Good			
	Warehouse	Lot 4320, Jalan Usaha 6, Ayer Keroh Industrial Estate, 75450 Melaka, Malaysia	Rented	Good	RM 5,500.00	October 31, 2020	Renewable upon mutual agreement of both parties
14	SAN MIGUEL YAMAMURA AUSTRALASIA						
	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 22,184.65	July 31, 2027 - Unit 1	Renewable upon mutual agreement of both parties
	SMYC PTY LTD						
	Warehouse	117-121 Lewis Rd, Knoxfield, Victoria	Rented	Good	AUD 57,592.67	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 28,656.69	April 30, 2022	Renewable upon mutual agreement of both parties
	Warehouse	30-32 Rosberg Rd, Wingfield, South Australia	Rented	Good	AUD 53,162.88	June 18, 2022	Renewable upon mutual agreement of both parties
	Warehouse	52 McDowell Street Welshpool, Western Australia	Rented	Good	AUD 35,213.02	September 30, 2024	Renewable upon mutual agreement of both parties
	Warehouse	22 Kinta Drive, Beresfield, Newcastle	Rented	Good	Jan-Nov 2019 - AUD6,936; Dec 2019 - AUD7,053.91	November 30, 2020	Renewable upon mutual agreement of both parties
	Warehouse	10-12 Linear Court, Derwent Park, Tasmania	Rented	Good	AUD 14,176.72	November 16, 2020	Renewable upon mutual agreement of both parties
	SMYP PTY LTD						
	Plant	21 Huntsmore Road, Minto NSW, Australia (Unit 2)	Rented	Good	AUD 19,705.13	July 31, 2027	Renewable upon mutual agreement of both parties
	Warehouse	21 Huntsmore Road, Minto NSW, Australia (Unit 3)	Rented	Good	Jan-Nov 2019 - AUD28,657.68; Dec 2019 - AUD29,107.4	July 31, 2030	Renewable upon mutual agreement of both parties
	Plant	114-118 Talinga Road, Cheltenham, Victoria	Rented	Good	AUD 70,158.07	January 01, 2028	Renewable upon mutual agreement of both parties
	Plant	13-15 Wangara Road, Sandringham, Victoria	Rented	Good	AUD 43,733.08	November 06, 2022	Renewable upon mutual agreement of both parties
	Plant	160 May Terrace Ottoway, South Australia	Rented	Good	AUD 77,185.11	October 17, 2026	Renewable upon mutual agreement of both parties
	Plant	Lionels Vineyard, Payne Road Jindong, Western Australia (Margaret River)	Rented	Good	AUD 24,207.66	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 7,750.00	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 10,669.73	July 31, 2022	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	SMYBB Pty Ltd						
	Plant/Office	463-469 & 487-501 Cowra Avenue, Mildura, Victoria	Rented	Good	AUD 60,728.76	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, 2020	Renewable upon mutual agreement of both parties
	SMYJ Pty Ltd						
	Plant/Office	50 Bond Street Mordialloc Victoria	Rented	Good	AUD 24,597.47	July 10, 2023	Renewable upon mutual agreement of both parties
	Plant/Office	48 Bond Street Mordialloc Victoria	Rented	Good	AUD 18,838.22	July 29, 2020	Renewable upon mutual agreement of both parties
15	COSPAK LIMITED	27 Ross Reid Place, East Tamaki, Auckland, New Zealand	Rented	Good	NZD 126,571.16	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	¥ 51,258.00	October 31, 2020	Renewable upon mutual agreement of both parties
FUEL AND OIL BUSINESS							
1	PETRON CORPORATION						
	Refinery and Powerplant						
	Petron Bataan Refinery	Petron Bataan Refinery, Limay, Bataan	Owned	Good			
	Power Plant (Units 1, 2, 3 and 4)	Brgy. Lamao, Limay, Bataan	Owned	Good			
	Metro Manila and Manufacturing						
	Terminal (Navotas)	PFDA CMPD., Navotas, M.M.	Rented Except Building & Facilities	Good	2,974,659.67	Aug 26, 2039	Renewable upon mutual agreement of both parties
	Terminal (Rosario)	Gen. Trias, Rosario, Cavite	Rented Except Building & Facilities	Good	245,815.45	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Pandacan)	Jesus St., Pandacan, Manila	Rented Except Building & Facilities	Good	2,370,987.29	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	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	785,472.12	December 31, 2035	Renewable at the option of the lessee
	Luzon Operations						
	Terminal (Palawan)	Brgy. Masipag, Puerto Princesa City	Rented Except Building & Facilities	Good	Jan to Nov 2019: 24,098.45 Dec 2019: 25,785.34	November 30, 2020	Renewable at the option of the lessee
	Terminal (Palawan)	Parola, Brgy. Maunlad, Puerto Princesa City, Palawan	Rented Except Building & Facilities	Good	3,873.00	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Pasacao)	Brgy. Balogo, Pasacao, Camarines Sur	Owned	Good			
	Sales Office (Pasacao)	Sitio Camangui, Brgy. Santa Rosa del Sur, Pasacao, Camarines Sur	Rented Except Building & Facilities	Good	Jan to May 2019: 444,150.00 June to Dec 2019: 466,357.50	May 31, 2027	Renewable upon mutual agreement of both parties
	Terminal (Poro)	Poro Pt., San Fernando, La Union	Rented Except Building & Facilities	Good	Jan to Feb 2019: 280,208.00 Mar to Dec 2019: 297,020.48	February 28, 2023	Renewable upon mutual agreement of both parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Terminal (Poro)	Poro Pt.,San Fernando, La Union	Rented Except Building & Facilities	Good	21,861.00	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Poro)	Poro Pt.,San Fernando, La Union	Rented except Building & Facilities	Good	25,300.00	June 01, 2021	Renewable upon mutual agreement of both parties
	Sales Office (Calapan)	Sixteen Enterprises Compound, Brgy. Masipit, Calapan City, Oriental Mindoro	Rented	Good	25,467.75	June 30, 2022	Renewable upon mutual agreement of both parties
	Sales Office (San Jose)	Purok Tagumpay 2, Brgy. Caminawit, San Jose, Occidental Mindoro	Rented	Good	17,000.00	April 30, 2021	Renewable upon mutual agreement of both parties
	Sales Office (Mamburao)	Mindoro Oil Depot, Paluan Road, Barangay Tayamaan, Mamburao, Occidental Mindoro.	Rented	Good	Jan 2019: 15,913.50 Feb to Dec 2019: 16,390.91	January 31, 2021	Renewable upon mutual agreement of both parties
	Terminal (Batangas)	Bo. Mainaga, Mabini, Batangas	Rented Except Building & Facilities	Good	40,065.37	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Bataan)	Limay, Bataan	Rented Except Building & Facilities	Good	6,275.32	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Sales Office (Odiangan)	Brgy Poctoy, Odiangan, Romblon	Rented	Good	Jan to Dec 2019: 63,976.50	December 31, 2051	Renewable at the option of the lessee
	Visayas Operations						
	Depot (Amlan)	Tandayag, Amlan, Negros Oriental	Rented Except Building & Facilities	Good	54,851.58	November 30, 2033	Renewable at the option of the lessee
	Terminal (Bacolod)	Bo. San Patricio, Bacolod City, Negros Occidental	Rented Except Building & Facilities	Good	78,109.95	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Depot (Siquijor Mini BP)	Candanay Sur, Siquijor	Owned	Good			
	Terminal (Iloilo)	Lapuz, Iloilo City	Rented Except Building & Facilities	Good	1,128,093.14	August 31, 2023	Renewable upon mutual agreement of both parties
	Depot (Isabel)	LIDE, Isabel, Leyte	Rented Except Building & Facilities	Good	256,915.58	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of both parties
	Terminal (Mactan)	MEPZ, Lapu- lapu City	Rented Except Building & Facilities	Good	780,000 - MCIAA 10,218.75 - PEZA	September 2020 - MCIAA Continuing unless terminated by both parties - PEZA	Continuing unless terminated by both parties
	Terminal (Ormoc)	Bo. Linao, Ormoc City, Leyte	Rented Except Building & Facilities	Good	24,788.06	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Ormoc)	Bo. Linao, Ormoc City, Leyte	Rented Except Building & Facilities	Good	5,000.00	May 31, 2025	Renewable upon mutual agreement of both parties
	Terminal (Roxas)	Sitio Pook, Brgy. Culasi, Roxas, City	Owned	Good			
	Terminal (Tacloban)	Anibong, Tacloban City	Rented Except Building & Facilities	Good	PNOC - 14,073.15 Domingo Lot - 375,000	August 31, 2018 January 2, 2039	Renewable upon mutual agreement of both parties (Expired in 2018 - With pending court case)
	Depot (Tagbilaran)	Graham Ave., Tagbilaran, Bohol	Rented Except Building & Facilities	Good	4,315.60	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Terminal (Mandaue)	Looc, Mandaue City, Cebu	Rented Except Building & Facilities	Good	469,679.00	August 31, 2018 March 31, 2028 January 1, 2038	Renewable upon mutual agreement of both parties (Expired in 2018 - With pending court case)
	Airport Installations	Iloilo Airport, Cabatuan, Iloilo City	Rented Except Building & Facilities	Good	60,200.00	Continuing unless terminated and agreed by both parties	Terminal has an ongoing application with CAAP Iloilo for a long term contract in Iloilo (20-25 yrs)
Mindanao Operations							
	Terminal (Davao)	Km. 9, Bo. Pampanga, Davao City	Rented Except Building & Facilities	Good	139,314.01	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Bawing)	Purok Cabu, Bawing, General Santos City	Owned	Good			
	Terminal (Iligan)	Bo. Tomas Cabili, Iligan City, Lanao del Norte	Rented Except Building & Facilities	Good	8,391.66	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Iligan)	Bo. Tuminobo, Iligan City, Lanao del Norte	Owned	Good			
	Terminal (Jimenez)	Jimenez, Misamis Occidental	Rented Except Building & Facilities	Good	200,000.00	December 16, 2024 and March 2, 2035	Renewable upon mutual agreement of both parties
	Terminal (Nasipit)	Talisay, Nasipit, Agusan del Norte	Owned	Good			
	Terminal (Tagoloan)	Tagoloan, Misamis Oriental PNOC- 13,836 sq m	Rented Except Building & Facilities	Good	12,773.15	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
		Tagoloan, Misamis Oriental - 13,499 sq m.	Rented Except Building & Facilities	Good	11,083.22	December 31, 2020	Renewable at the option of the lessee
		Tagoloan, Misamis Oriental PHIVIDE/ NVRC (FLA)- 19,965 sq m.	Rented Except Building & Facilities	Good	11,733.13	February 9, 2034	Renewable at the option of the lessee
		Tagoloan, Misamis Oriental - 25,000 sq. m	Rented Except Building & Facilities	Good	No agreed rate yet		On-going preparation of lease contract
		Tagoloan, Misamis Oriental - 13,500 sq. m	Rented Except Building & Facilities	Good	No agreed rate yet		On-going preparation of lease contract
	Terminal (Zamboanga)	Bgy. Campo Islam, Lower Calarian, Zamboanga City	Rented Except Building & Facilities	Good	25,133.65	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Airport Installations	Laguindingan, Misamis Oriental CAAP- 4000 sq m.	Rented Except Building & Facilities	Good	200,187.50	March 31, 2040	Renewable upon mutual agreement of both parties
	Airport Installations	Davao Airport	Rented Except Building & Facilities	Good	32,262.50	May 31, 2028	Renewable upon mutual agreement of both parties
	Airport Installations	Zamboanga International Airport	Rented Except Building & Facilities	Good	7,045.00	November 30, 2029	Renewable at the option of the lessee
Gasul Operations							
	Depot (LPG Operation)	Lakandula Drive, brgy. Bonot, Legaspi City	Rented Except Building & Facilities	Good	38,056.60	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Depot (Gasul - San Fernando)	Brgy Dela Paz Norte, San Fernando, Pampanga	Rented Except Building & Facilities	Good	8,543.46	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)
	Terminal (Gasul – Pasig)	Bo. Ugong, C5,Pasig, M.M	Rented Except Building & Facilities	Good	842,309.29	August 31, 2018	Renewable upon mutual agreement of both parties (With pending court case)

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
2	PETRON MALAYSIA REFINING & MARKETING BHD						
	Refinery						
	Port Dickson Refinery	Lot 2645 - Lot 2648, 1222, 1593-1595, 1757, 1803, 1805, 1836, 1838, 1926-1930 & 2278, Port Dickson, Negeri Sembilan	Owned	Good			
	Lumut LPP plant	Lot 15636, Lumut Port Industrial Park, Mukim Lumut, Jalan Kampung Acheh, Sitiawan, Perak.	Owned	Good			
	Terminals and Depots						
	Port Dickson Terminal	Batu 1.5, Jalan Pantai, 71009 Port Dickson, Negeri Sembilan	Owned	Good			
	Bagan Luar Terminal	Lot 95-125, Lot 2327-2338 Section 4 Butterworth, Seberang Perai Utara, Penang	Owned	Good			
	KLIA Aviation Depot	Forward Fuel Base, Jalan FFB Kuala Lumpur International Airport (KLIA) 64000 Sepang Selangor Darul Ehsan, Malaysia	Rented	Good	MYR 8,976.00	Continuing unless terminated and agreed by both parties	Contract automatically renewed on yearly basis unless terminated in accordance with the termination provision in the agreement
	KVDT- MPP (Tie-in facilities for MPP/KVDT)	GM 1397 Lot 194 Mukim and Daerah Port Dickson Negeri Sembilan	Rented Except Building & Facilities	Good	MYR 6,300	June 30, 2023	Renewable upon mutual agreement of both parties
3	PETRON FUEL INTERNATIONAL SDN BHD						
	Kuantan Terminal	Lot 1863, Mukim Sungai Karang, Tanjung Gelang, Kuantan Port, 26100 Kuantan. PAHANG	Rented	Good	Terminal 1 MYR 17,258.16 Terminal 2 MYR 16,270.95	Terminal 1 Dec 2027 Terminal 2 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 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. 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	PETRON OIL (M) SDN BHD						
	Tawau Terminal	Jalan Tg Batu Laut, 91000 Tawau, Sabah	Rented Except Building & Facilities	Good	MYR .125 (Yearly Rental - MYR 1.50)	October 2902	No option stated in the agreement
	Sandakan Terminal	Jalan Kampung Karamunting, Sandakan, Sabah	Rented Except 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 Building & Facilities	Good	MYR 25,333.33 (Yearly Rental - MYR 304,000.00)	July 2031	An option for renewal for a period of thirty (15) years.

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
ENERGY BUSINESS							
1	SAN MIGUEL ENERGY CORPORATION						
	1000 MW Sual Coal-Fired Thermal Power Plant	Brgy. Pangascasan, Sual, Pangasinan	IPPA with PSALM	Good			
2	SOUTH PREMIERE POWER CORP.						
	1200 MW Ilijan Natural Gas Combined Cycle Power Plant	Brgy. Ilijan, Batangas City, Batangas	IPPA with PSALM	Good			
3	STRATEGIC POWER DEVT. CORP.						
	345 MW San Roque Multi-Purpose Hydroelectric Power Plant	Brgy. San Roque, San Manuel, Pangasinan	IPPA with PSALM	Good			
4	SMC CONSOLIDATED POWER CORPORATION (SCPC) ^(a)						
	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	334,750.00	March 2042	Renewable for another 25 years to be agreed by both parties
5	SAN MIGUEL CONSOLIDATED POWER CORPORATION (SMCP) ^(b)						
	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
6	GRAND PLANTER INTERNATIONAL INC.						
	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 2	Brgy. Alangan, Limay, Bataan	Owned	Good			
	Land - Project Expansion	San Carlos City, Negros Occidental	Owned	Good			
7	ONDARRE HOLDING CORPORATION						
	Land	Brgy. Wack-Wack, Greenhills, Mandaluyong City	Owned	Good			
8	DAGUMA AGRO-MINERALS, INC.						
	Land	Tambler, General Santos City	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
9	ALPHA WATER REALTY SERVICES CORPORATION ^(c)						
	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			
10	MASINLOC POWER PARTNERS CO. LTD. (MPPCL) ^(c)						
	330 MW coal-fired power plant (Unit 1)	Brgy. Bani, Masinloc, Zambales	Owned	Good			
	344 MW coal-fired power plant (Unit 2)	Brgy. Bani, Masinloc, Zambales	Owned	Good			
	335 MW coal-fired power plant (Unit 3)	Brgy. Bani, Masinloc, Zambales	Owned	Ongoing construction of power plant			
	10 MW battery energy storage project	Brgy. Bani, Masinloc, Zambales	Owned	Good			
	Land (where Units 1-3 power plant, and related facilities, and the 10 MW battery energy storage project are situated)	Brgy. Bani, Masinloc, Zambales	Rented	Good	US\$47,597.17	April 2028	With assignable option to purchase
11	SMCGP PHILIPPINES ENERGY STORAGE CO. LTD.						
	Land	Brgy. Binicuil, Kabankalan, Negros Occidental	Owned	Good			
	2 X 20 MW battery energy storage system	Brgy. Binicuil, Kabankalan, Negros Occidental	Owned	Ongoing construction of battery energy storage system			
12	ALBAY POWER AND ENERGY CORPORATION						
	Land used for operating and maintaining the 15-MVA Substation.	Legazpi City Albay.	Rented	Good	270,000.00	December 2021	Renewable upon mutual agreement by both parties.
13	MARIVELES POWER GENERATION CORPORATION						
	Land (where the 4 X 150MW coal-fired power plant will be located)	Mariveles, Bataan	Owned	Good			
INFRASTRUCTURE BUSINESS							
1	SAN MIGUEL HOLDINGS CORP.						
	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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
2	VERTEX TOLLWAYS DEVT. INC.						
	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			
3	TERRAMINO HOLDINGS, INC AND ASSETVALUES HOLDING COMPANY, INC.						
	Office Space	Suite 2402 Discovery Suites, 25 ADB Avenue, Ortigas Center, Pasig City	Rented by Gerodias Suchianco Estrella Law Firm (Service Provider)	Good			
4	UNIVERSAL LRT CORPORATION (BVI) LIMITED						
	Office Space	11/F San Miguel Properties Centre, St. Francis Street, Mandaluyong City	Owned	Good			
5	TRANS AIRE DEVELOPMENT HOLDINGS, CORP.						
	Buildings (Offices, Stockrooms, Barracks, Staff Houses, Residential Building, etc.)	Caticlan, Malay, Aklan	Rented	Good	923,571.43	October 1, 2021	Subject to renewal or extension as mutually agreed between the parties
	Interim Terminal	Caticlan, Malay, Aklan	Rented	Good	80,000.00	July 13, 2020	Subject to renewal or extension as mutually agreed between the parties
	Interim Terminal	Caticlan, Malay, Aklan	Rented	Good	40,000.00	July 12, 2023	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			
6	RAPID THOROUGHFARES, INC.						
	Land	Emilio Vergara Highway Corner Mabini Street Extension, Sta. Arcadia, Cabanatuan, Nueva Ecija	Owned	Good			
	Land	Maharlika Highway, Malipampang, San Ildefonso, Bulacan	Owned	Good			
7	PRIVATE INFRA DEV CORPORATION						
	Head Office (Old)	Unit 06 UG Pioneer Highlands Condo Tower 2, Pioneer corner Madison Streets, Mandaluyong City	Owned	Good			
	Site Office Space (ROW/Legal Services)	Brgy. Asan Norte, Municipality of Sison, Pangasinan	Rented	Good	DPWH Legal Services Staff - 13,000.00	December 31, 2020	Subject to renewal or extension as mutually agreed between the parties
	Site Office Space (Construction)	Manila North Road, Brgy. Bued, Binalonan, Pangasinan	Rented	Good	Octagon for Core Office - 380,000 for all (Octagon, Annex, Villa)	December 31, 2020	Subject to renewal or extension as mutually agreed between the parties
			Rented	Good	Ruperto's Annex for IC Office - 87,846	February 29, 2020	
			Rented	Good	Villa Office Space for Engineer's Staff House - 380,000	December 31, 2020	
8	OPTIMAL INFRASTRUCTURE DEVELOPMENT, INC.						
	Land	Manila Harbour Centre, Brgy. 128 Zone 10 (Isla de Balut/Vitas), Tondo, Manila City	Owned	Good			
9	SLEEP INTERNATIONAL (NETHERLANDS) COOPERATIEF U.A.						
	Office Space	Prins Bernhardplein 200, 1097 JB Amsterdam	Owned by the Service Provider	Good			
10	WISELINK INVESTMENT HOLDINGS, INC.						
	Office Space	40 San Miguel Avenue, Brgy. Wack-Wack Mandaluyong City	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
11	ATLANTIC AURUM INVESTMENTS B.V.						
	Office Space	Peperstraat 9, 5211 KM 's Hertogenbosch, The Netherlands	Owned by the Service Provider	Good			
12	STAGE 3 CONNECTOR TOLLWAYS HOLDINGS CORPORATION						
	Office Space	40 San Miguel Avenue, Mandaluyong City	Owned	Good			
13	CITRA CENTRAL EXPRESSWAY CORP						
	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			
14	CITRA METRO MANILA TOLLWAYS CORPORATION						
	Office Space	21st to 24th Floors One Magnificent Mile-CITRA Building, San Miguel Avenue, Ortigas Center 1605 Pasig City	Owned	Good			
	Office Space	3/F Toll Operations Building, Doña Soledad Avenue, Brgy. Don Bosco, Parañaque City	Owned	Good			
15	SKYWAY O&M CORPORATION						
	Office Space	1st and 2nd Floors TOB Doña Soledad Avenue, Bicutan, Paranaque City	Owned	Good			
16	ALLOY MANILA TOLL EXPRESSWAYS INC.						
	Office Space	GF Operations and Control Center, Km.44 South Luzon Expressway, Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned by ROP (South Luzon Tollway Corporation Concession Rights)	Good			
	Land	Km.44 Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned	Good			
17	JETHANDLER ASIA SERVICES, INC.						
	Office Space	Boracay International (Godofredo P. Ramos) Airport, Caticlan Malay, Aklan	Rented	Good	42,105.26	September 01, 2021	Renewable upon mutual agreement in writing by the parties through their duly authorized representatives
	Office Space	16/F 45 San Miguel Building, 45 San Miguel Avenue, Barangay San Antonio, Pasig City	Rented	Good	227,350.00	May 31, 2021	Upon mutual agreement of the LESSOR and the LESSEE, the lease may be renewed under such terms and conditions acceptable to the parties
18	MANILA TOLL EXPRESSWAY SYSTEMS, INC.						
	Office Space	GF Operations and Control Center, Km.44 South Luzon Expressway, Sitio Latian, Brgy. Mapagong, Calamba City, Laguna	Owned by ROP (South Luzon Tollway Corporation Concession Rights)	Good			
19	SMC INFRAVENTURES INC.						
	Office Space	40 San Miguel Avenue, Mandaluyong City	Owned	Good			
20	SOUTH LUZON TOLLWAYS CORPORATION						
	LAND	Lot 3122-C, Sitio Latian, Brgy. Mapagong, Calamba, Laguna	Owned	Good			
21	CITRA INTERCITY TOLLWAYS, INC.						
	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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Office Space	Unit B 18th Floor of the JMT Corporate Condominium, ADB Avenue, Ortigas Center, Pasig City	Owned	Good			
22	CYPRESS TREE CAPITAL INVESTMENTS, INC.						
	Office Space	7th Floor, Electra House Building, 115-117 Esteban St., Legazpi Village, Makati City	Owned	Good			
23	STAR INFRASTRUCTURE DEVELOPMENT CORPORATION						
	Land	Brgy. Lapu Lapu, Ibaan, Batangas	Owned	Good			
	SIDC OFFICE	7th Floor Electra House Condominium, 115- 117 Esteban St., Legaspi Village, Makati City	Rented	Good	48,049.82	January 31, 2020	Subject to renewal or extension as mutually agreed between the parties
	Office Space	2F Operations and Control center, Km 44 South Luzon Expressway, Sitio Latian, Brgy. Mapagong ,Calamba City	Rented	Good	23,818.75	December 31, 2020	Subject to renewal or extension as mutually agreed between the parties
24	STAR TOLLWAY CORPORATION						
	Office Space	Brgy. Tambo, Lipa City, Batangas	Owned by ROP (Star Infrastructure Development Corporation Concession Rights)	Good			
25	ULCOM COMPANY, INC.						
	Office Space	11/F San Miguel Properties Centre St. Francis Street, Mandaluyong City	Owned	Good			
26	SMC MASS RAIL TRANSIT 7, INC.						
	Office Space	40 San Miguel Avenue, Mandaluyong City	Owned	Good			
	Office Space	GF 808 Bldg, Meralco Avenue Cor Gen Lim Street, Brgy. San Antonio, Pasig City	Owned	Good			
	Office Space	4F 808 Bldg, Meralco Avenue Cor Gen Lim Street, Brgy. San Antonio, Pasig City	Owned	Good			
	Parking Space	San Antonio Village, Brgy. San Antonio, Pasig City	Owned	Good			
	Office Space	20/F San Miguel Properties Centre St. Francis Street, Mandaluyong City	Owned	Good			
27	AEROFUEL STORAGE MANAGEMENT INC.						
	Office Space	11/F San Miguel Properties Centre St. Francis Street, Mandaluyong City	Owned	Good			
28	ARGONBAY CONSTRUCTION COMPANY, INC.						
	Office Space	11/F San Miguel Properties Centre St. Francis Street, Mandaluyong City	Owned	Good			
29	INTELLIGENT E- PROCESSES TECHNOLOGIES CORP.						
	Office Space	16th Floor Unit A, 45 San Miguel Building, 45 San Miguel Avenue, Ortigas Center, Pasig City	Rented	Good	211,250.00	May 31, 2021	Upon mutual agreement of the Lessor and the Lessee, the lease may be renewed under such terms and conditions acceptable to the parties, provided, however, that within ninety (90) days prior to the expiration of the Lease Period, the Lessee shall inform the Lessor in writing of its intention to renew the lease. If no written notice of renewal is received by the Lessor from the Lessee during the said 90-day period, the lease shall automatically terminate upon the expiration of the original Lease Period.

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Office Space	KM 44 South Luzon, Brgy. Mapagong, Sitio Latian, Calamba, Laguna	Rented	Good	159,135.00	December 31, 2020	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.
30	LUZON CLEAN WATER DEVELOPMENT CORPORATION						
	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			
OTHERS							
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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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			
	Land	327 Brgy. Prenza-San Fermin, Cauayan City, Isabela	Owned	Good			
	Land	471 F. Ortigas St., Brgy. Hagdang Bato Libis, Mandaluyong City	Owned	Good			
	Land/Building/Improvements	San Miguel Corporation - Head Office Complex, No. 40 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. 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 Roque, Antipolo City	Owned	Good			
	Land	618 Lee St. Brgy. Addition Hills, Mandaluyong City	Owned	Good			
	Land	Brgy. Bucal Calamba, Laguna	Owned	Good			
	Bel-Aldea Realty, Inc.						
	Land and Building	No. 77 IPO St., Brgy. Paang Bundok, La Loma, Quezon City	Owned	Good			
	Bright Ventures Realty, Inc.						
	Land	A. Marcos cor M.H. del Pilar and A. Mabini Sts., Addition Hills, San Juan City	Owned	Good			
	Land / Dover Hill	No. 168 Pilar Corner P. Zamora Sts., Brgy. Addition 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, Mandaluyong City	Owned	Good			

Company Name / Subsidiary	Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
SMC Originals, Inc.						
Land	Antonio Arnaiz Avenue corner Estacion St., Brgy. Pio del Pilar, Makati City	Owned	Good			
Silang Resources, Inc.						
Land	Brgys. San Vicente, San Miguel, Biluso And Lucsuhin, Silang, Cavite	Owned	Good			
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			
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 (In PhP, Unless Otherwise Indicated)	Expiry of Lease 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			
3	PACIFIC CENTRAL PROPERTIES, INC.						
	Land	Limay, Combined Power Plant, Limay, Bataan	Owned	Good			
	Land	Dauin, Negros Oriental	Owned	Good			
	Land	Outlook Drive, Baguio City	Owned	Good			
4	SMC SHIPPING AND LIGHTERAGE CORPORATION AND SUBSIDIARIES						
	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	2,476,025.52	September 30, 2030	Renewable upon mutual agreement of the parties
	Land	Yard 2, Engineering Island, Baseco Compound, Port Area, Manila City	Rented	Good	2,781,931.34	January 02, 2022	Renewable upon mutual agreement of the parties
	Land at Iloilo Fish Port Complex	Iloilo Fishport Complex (IFPC), Tanza, Iloilo City	Rented	Good	1,077,635.79	December 11, 2029	Renewable upon mutual agreement of the parties
	Land at Bataan Warehouse 1 & 2	Freeport Area, Mariveles, Bataan	Rented	Good	402,513.27	May 31, 2023	Renewable upon mutual agreement of the parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Land	Block 22 Manila Harbor Center, Tondo, Manila City	Rented	Good	1,016,305.47	April 14, 2020	Renewable upon mutual agreement of the parties
	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			
	Warehouse	Zone 3, Upper Agusan, Cagayan de Oro City	Rented	Good	1,718,019.07	December 31, 2020	Renewable upon mutual agreement of the parties
	Warehouse	Brgy. Masaya, Rosario Batangas	Rented	Good	1,802,822.50	December 31, 2020	Renewable upon mutual agreement of the parties
	Warehouse (1 to 2)	Bicol Oil Mill Cmpd. Balogo, Pasacao, Camarines Sur	Rented	Good	1,017,600.00	December 31, 2020	Renewable upon mutual agreement of the parties
	Warehouse (2, 3, 4)	Herma Industrial Complex, Mariveles, Bataan	Rented	Good	337,500.00	December 31, 2020	Renewable upon mutual agreement of the parties
	Warehouse rental for Feedmill Plant	CDO	Owned	Good			
	Warehouse rental for Feedmill Plant	Iloilo	Owned	Good			
	Warehouse	National Highway, Baloy, Tablon, Cagayan De Oro City	Rented	Good	900,000.00	July 14, 2020	Renewable upon mutual agreement of the parties
	Warehouse	National Highway, Baloy, Tablon, Cagayan De Oro City	Rented	Good	630,000.00	July 31, 2020	Renewable upon mutual agreement of the parties
	Warehouse	Casisang, Malaybalay City, Bukidnon	Rented	Good	123,200.00	February 5, 2020	Renewable upon mutual agreement of the parties
	Foreshore Area	Looc, Lapu Lapu City	Owned	Good			
	Foreshore Area	Looc, Lapu Lapu City	Owned	Good			
	Foreshore Area	Looc, Lapu Lapu City	Rented	Good	27,994.66	January 24, 2020	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, 2020	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, 2020	Renewable after one (1) year or 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	673,134.92	April 30, 2021	Renewable upon mutual agreement of the parties

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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	Various dates from December 31, 2019 to March 31, 2023	Renewable upon mutual agreement of the parties (On-going renewal)
	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	363,747.00	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	275,465.00	April 29, 2024	Renewable upon mutual agreement of the parties
	Land	Road Lot 3, Manila Harbour Centre, Tondo, Manila City	Rented	Good	233,019.60	May 14, 2023	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
	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			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Land	Barrio Kitang, Limay, Bataan (228,616 sqm)	Rented	Good	363,745.00	December 31, 2019	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 (On-going renewal)
	Land	Block 15, Lots 7, Manila Harbour Centre, Tondo, Manila	Rented	Good	1,329,347.09	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	1,123,727.17	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	3,394,050.00	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			
	Land	Land with an area of 5,167.53 sqm located at Manila Harbour Center, Blk 15, Lot 7.	Rented	Good	1,329,347.09	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	141,029.11	April 30, 2020	Renewable upon mutual agreement of the parties
	Foreshore and Offshore Areas	Land with an area of 41,682 sq. m. located at Gracia, Tagoloan, Misamis Oriental	Rented	Good	27,145.23	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 (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	Foreshore and Offshore Areas	Land with an area of 50,152 sq. m. located at Gracia, Tagoloan, Misamis Oriental	Rented	Good	251,233.01	March 07, 2029	May be renewed for 25 years upon terms and conditions mutually agreed upon by the parties
	Foreshore and Offshore Areas, and Port Facility	Land with an area of 121,396 sq. m. located at Gracia, Tagoloan, Misamis Oriental	Rented	Good	272,496.17	Continuing unless terminated and agreed by both parties	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	172,453.70	March 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			
	SMC Shipyard Cebu Land Inc.						
	Land and Building	Dad Cleland Ave., Looc, Lapu Lapu City	Owned	Good			
5	SM BULK WATER CO., INC.						
	Land	Bobulusan, Guinobatan, Albay	Owned	Good			
	Land	Brgy. Batang, Ligao City	Owned	Good			
6	SMC STOCK TRANSFER SERVICE CORPORATION						
	Office Space	Units 1505-07 Robinsons Equitable Tower, ADB Avenue corner Poveda, Pasig City	Owned	Good			
	Parking Space	Parking Slots No. 31, 32 & 33 Robinsons Equitable Tower, ADB Avenue corner Poveda, Pasig City	Owned	Good			
7	SAN MIGUEL PAPER PACKAGING CORPORATION						
		Dr. A Santos Avenue, Sucat, Parañaque City	Owned	Good			
8	SAN MIGUEL EQUITY INVESTMENTS INC. AND SUBSIDIARIES						
	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			
	Primero Cemento Industries Corp.						
	Land	Agno, Pangasinan	Owned	Good			

Company Name / Subsidiary		Address	Rented / Owned	Condition	Monthly Rental (In PhP, Unless Otherwise Indicated)	Expiry of Lease Contract	Terms of Renewal / Options
	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	Brgy. Labayug, Sison Pangasinan	Rented	Good	9,222,763.20	Continuing unless terminated and agreed by both parties	Renewable upon mutual agreement of the parties
	Cement Grinding Plant	Brgy. Labayug, Sison Pangasinan	Owned	On-going Construction			

Note: All owned properties are free of liens and encumbrances, except for the following:

- ^(a) The Power Plant, including all related facilities therein, are mortgaged in favor of the lenders to secure the loan obligation of SCPC;
- ^(b) The Power Plant, including all related facilities therein, are mortgaged in favor of the lenders to secure the loan obligation of SMCPC; and
- ^(c) 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.

ANNEX “E”

SAN MIGUEL CORPORATION
2019
List of Products



LIST OF PRODUCTS

I. BEER AND NAB

1. San Miguel Pale Pilsen
2. San Mig Light
3. San Miguel Super Dry
4. San Miguel Premium All-Malt
5. Red Horse
6. Gold Eagle
7. Cerveza Negra
8. Cali
9. San Miguel Flavored Beer
10. San Miguel Zero
11. San Miguel Nab
12. Valor
13. Blue Ice
14. Dragon
15. Blue Star
16. W1N Bia (Bia Hoi)
17. Anker
18. Kuda Putih
19. Bruck
20. Knight

NON-ALCOHOLIC BEVERAGES

1. Magnolia Fruit Drink
2. Magnolia Healthtea
3. San Mig Cola
4. Agua Prima

BREWED FOR PRIVATE LABEL

1. Ikinama
2. Kiwamugi
3. Cous
4. Elite

BREWED UNDER LICENSING/TOLLING AGREEMENT

1. Carlsberg
2. Sunlik
3. Guang's Pineapple
4. Guang's Draft

IMPORTED/DISTRIBUTED

1. Kirin Ichiban
2. Samuel Adams
3. James Boag's
4. Angry Orchard
5. Spitfire
6. Whitstable Bay
7. Mahou
8. Magners
9. Arcobrau
10. Twisted
11. Blackthorn
12. Little Creatures
13. White Rabbit White Ale
14. Heverlee
15. James Squire

II. SPIRITS

1. Ginebra San Miguel
2. Ginebra San Miguel Premium Gin
3. G.S.M. Blue Light Gin
4. G.S.M. Blue Flavors (Mojito, Margarita and Gin Pomelo)
5. Primera Light Brandy (Premium Brandy Liqueur)
6. Vino Kulafu (Chinese Wine)
7. Antonov Vodka
8. Don Enrique Mixkila Distilled Spirit
9. Añejo Gold Rum (65 Proof)

FOR EXPORT ONLY

10. Tondeña Gold Rum
11. Tondeña Manila Rum (Silver, Gold And Dark)
12. Mix Gin
13. Mix Rum
14. Mix Vodka
15. Gran Matador Solera Gran Reserva Brandy
16. Gran Matador Gold
17. Anejo Dark Rum 5 Years

III. Food

San Miguel Foods, Inc.

POULTRY

Live Broilers

Dressed Chicken (Wholes)

- Magnolia Fresh Chicken (Fresh Chilled & Frozen)
- Magnolia Spring Chicken (Fresh Chilled & Frozen)
- Magnolia Jumbo Chicken (Fresh & Frozen)
- Magnolia Free Range Chicken (Fresh & Frozen)
- Supermarket House Brands

Cut-ups

- Magnolia Chicken Cut-ups (Fresh Chilled & Frozen)
- Magnolia Chicken Station Cut-ups
- Magnolia Chicken Station Convenient Cuts
- Magnolia Chicken Smart Packs
- Magnolia Chicken Breast & Leg Meat Yakitori
- Magnolia Chicken Branded 1Kg Cut-ups

Marinated

- Magnolia Chicken Station Timplados products (Freshly-made at the Magnolia Chicken Stations)
- Magnolia Chicken 3-Way (Ginger-Based, Gata-Based, and Tomato-Based Chicken Cut-ups)

Giblets

- Magnolia Chicken Giblets (Fresh & Frozen Liver and Gizzard)

Institutional

- Whole Chicken
- Customized Bone-in Cut-ups and Deboned Fillets

Export

- Magnolia Chicken Griller (Fresh & Frozen)
- Chicken Yakitori (Frozen)
- Bone-in Chicken Cut-ups (Frozen)
- Deboned Chicken Fillets (Frozen)
- Marinated Products (Frozen)

Brown Eggs

- Magnolia Cage-Free Brown Eggs 12s
- Magnolia Egg-A-Day 7s

FRESH MEATS

Live Hogs

Wholesale Cuts

- Pork
 - Hog Carcass
 - Boxed Primal Parts

- Beef
 - Beef Forequarters
 - Beef Hindquarters
 - Boxed Primal Cuts

Retail Cuts

- Monterey Primal Cuts (Pork, Beef)
- Monterey Cut Ups (Pork, Beef)

Individual Portion Cuts (cut and packed in the Monterey Meatshops)
Smart Packs (centrally cut and packed in the plant)
Monterey Ready-To-Cook Marinated Meats /Timplados (Pork, Beef)
Monterey Meatshop produced Timplados
Pork BBQ Tenderloin Skewers (produced in the plant)
Montana Cut Ups (Pork, Beef)
Individual Portion Cuts (cut and packed inside store)
Montana Ready-To-Cook Marinated Meats /Timplados (Pork, Beef)

FEEDS

Animal & Aquatic Feeds

Hog Feeds

B-MEG Premium Hog Pellets
B-MEG Expert Hog Feeds
B-MEG Mega Mash
B-MEG Essential Hog Feeds
B-MEG Bonanza Hog Pellets
Jumbo Hog Feeds
Pureblend Hog Pellets

Poultry Feeds

B-MEG Premium Layer
B-MEG Essential Layer
B-MEG Expert Layer
B-MEG Layer
B-MEG Integra
B-MEG Integra Powermaxx
B-MEG Derby Ace
B-MEG Alertone Mixed Grains
B-MEG Fighting Cock Pellets
B-MEG F-Series
B-MEG Pigeon Pellets
B-MEG Premium Broiler
B-MEG Essential Broiler
B-MEG Essential Broiler Breeder
B-MEG Broiler
B-MEG Chick Grower
B-MEG Duck Feeds
Jumbo Pullet Developer Pellets
Pureblend Broiler
Pureblend Special Broiler
Pureblend Layer
Pureblend Duck Feeds

Aquatic Feeds

B-MEG Super Premium Floating Feeds
B-MEG Premium Tilapia Pellets
B-MEG Premium Bangus Pellets
B-MEG Aquaration Feeds
B-MEG Expert Fish Feeds
B-MEG Prize Catch Floating Feeds
B-MEG Nutrifloat Floating Feeds
Pinoy Sinking Pellets
Pinoy Floating Feeds

Others

Pureblend Quail Feeds
B-MEG Horse Feeds

Concentrate

- B-MEG Hog Concentrate
- B-MEG Cattle Concentrate
- B-MEG Pig Protein Concentrate
- B-MEG Broiler Protein Concentrate
- B-MEG Essential Intramix Pro Hog Concentrate
- B-MEG Essential Hog Concentrate
- B-MEG Essential Goat Concentrate
- B-MEG Essential Cattle Concentrate

Animal Health Care Veterinary Medicines**Anti-infective - Water Soluble Preparation**

- Amoxil-V
- Cephalexin 20%
- Cotrimoxazole 48%
- Doxa-V
- Dox-C-Lin Gold Premium
- Dox-C-Trin Gold Premium
- B-MEG Integra Trimax
- B-MEG Integra CXD-3

Supplement/Vitamins - Water Soluble Preparation

- B-MEG Integra Multimax
- B-MEG Integra Electromax
- Elec-V
- Multi-V
- Multivitamins +Minerals + Amino Acids
- Vitamin B-Complex (Broiler)

Anti-Inflammatory/Anti-pyretic - Water Soluble Preparation

- Para-V

Supplement/Vitamins – Oral Solution

- B-MEG Integra Multimax D5
- B-MEG Integra Power Edge

Dewormer/Anti-nematodal - Water Soluble Preparation

- Bulatigok SD
- Bulatigok

Disinfectant

- Protect Plus
- Protect Plus Gold
- Aqua Care
- Calci Care

Injectables

- Alamycin LA
- Iron-Vet
- Norovit
- Respiclear

Oral Preparation

- B-Meg Integra Trifast

Anti-infective - Feed Premixes

- Tiamulin 10%

Supplement/Vitamin - Feed Premixes

- B-MEG Essential Swine Vitamin
- B-MEG Essential Swine Mineral

B-MEG Essential Poultry Vitamin
B-MEG Essential Poultry Mineral

Supplement/Vitamin - Liquid Preparation

Vitamin ADE
Vitamin E 60%
Multi-V Plus

Anti-infective - Liquid Preparation

Norfloxacin 20%
Doxa V Plus
Cotri V Plus
Respitil

Others

B-MEG Integra Feathershine Shampoo

San Miguel Mills, Inc. (SMMI)

Hard Wheat Flour

King
Emperor
Monarch
Pacific
Harina de Pan de Sal

Soft Wheat Flour

Queen
Countess
Red Dragon

Specialty Flour

Baron All-Purpose Flour
Baron Siopao Flour
Princess Cake Flour
Golden Wheat Whole Wheat Flour (Coarse & Fine)

Customized Flour

Royal Premium Noodle Flour
Prince Miki Flour
Prince Noodle Flour
Prince Wrapper Flour

Premixes

Mix' n Bake
Bibingka Mix
Brownie Mix
Chiffon Cake Mix
Crème Cake Mix
Crinkle Mix
Pan de Sal Mix
Mix' n Steam
Puto Mix
Mix' n Fry
Pancake Mix
Yeast Raised Doughnut Mix
Yellow Cake Donut Mix

Bakery Ingredients

Bake Best Bread Improver
Bake Best Gold Bread Improver

Bake Best Platinum Bread Improver
Bake Best Baking Powder
Emperor's Best Instant Yeast

Services

Product Customization
Recipe Development
Technical Training in Flour Applications

Golden Bay Grain Terminal Corporation (a wholly-owned subsidiary of SMMI)

Unloading, storage, bagging, and outloading services for raw materials in bulk

The Purefoods-Hormel Company, Inc.

REFRIGERATED MEATS

Hotdogs

Purefoods Tender Juicy Hotdog (Classic, Jumbo, Kingsize, Cocktail, Cheesedog, Chick 'n Cheese, Chick 'n Bacon, Chick 'n Chili, Giant, Pizza, Spaghetti, Balls, Cheeseballs)
Purefoods Star Hotdog (Regular, Cheezeedog, Chick n' Tasty, Cheeseballs)
Higante Hotdog (Regular, Cheesedog, Chicken)
Purefoods Deli Franks (German, Angus Beef, Turkey, Cheese, Spicy Pepper Beef)
Purefoods Deli Sausages (Bockwurst, Schublig, Hungarian Cheese)
Purefoods Beefies Hotdog (Regular, Lots-a-Cheese)
Vida Hotdog
Bongga Hotdog

Breaded, Battered & Fried

Purefoods Chicken Nuggets (Chicken Breast Nuggets, Crazy Cut Shapes, Letters & Numbers, Bacon & Cheese, Cheese Overload, Drummets, Chicken Popcorn)
Purefoods Fish Nuggets
Star Chicken Nuggets
Star Burger Bites

Bacon

Purefoods Bacon (Honeycured, Honey Roast, Spicy Barbecue, Maple-flavored, Bacon Crumble)
Hormel Black Label Bacon
Vida Bacon

Sliced Hams

Purefoods Ham (Sweet, Cooked, Chicken)
Purefoods Fiesta Ham Slices
Star Sweet Ham
Vida Sweet Ham

Whole Hams

Purefoods Fiesta Ham (Whole, Pre-Sliced, Bone-in, Chicken)
Purefoods Jamon de Bola
Purefoods Chinese Ham
Purefoods Brick Ham
Purefoods Pear-Shaped Ham
Jamon Royale

Ready-to-Cook/Ready-to-Eat

Monterey Sisig
Purefoods Crispy Fried Chicken
Purefoods Heat & Eat (Teriyaki, Chicken Balls)

Native Line

Purefoods Tocino (Classic, Sweet Chili, Chicken)

Purefoods Longanisa (Hamonado, Recado, Chicken)

GROCERY PRODUCTS

Corned Meats

Purefoods Corned Beef (Classic, Hash, Chili Garlic, Hot & Spicy, with Chunks)
Chunkee Corned Beef
Star Corned Beef (Regular, Chunky Cheese)
Star Carne Norte

Purefoods Pulled Pork BBQ (Pinoy Style, Asian Style)

Luncheon Meats

Purefoods Luncheon Meat (Classic, BBQ, Chili Pepper, Bacon, Cheese)
Purefoods Chinese Style Luncheon Meat
Purefoods Chicken Luncheon Meat
Star Beef Loaf
Star Meat Loaf

Sausages

Purefoods Vienna Sausage
Purefoods Chicken Vienna Sausage

Canned Viands

Purefoods Sizzling Delights (Sisig, Chicken Sisig, Bopis)
Ulam King (Caldereta, Menudo, Mechado)

Canned Chicken

Purefoods Chicken (Broth, Afritada, Homestyle-Curry, Hot and Spicy)

Specialty Grocery Products

Purefoods Liver Spread
Purefoods Spaghetti Meat Sauce
Purefoods Chorizo Filipino

Magnolia, Inc.

BUTTER, MARGARINE & CHEESE

Butter

Magnolia Gold Butter (Salted, Unsalted) and Magnolia Gold Spreadable
Magnolia Butter-licious!

Refrigerated Margarine

Dari Creme (Classic, Buttermilk) and Dari Creme Spreadable
Buttercup
Baker's Best

Non-Refrigerated Margarine

Star Margarine (Classic, Sweet Blend, Garlic, Vanilla, Chocolate, Caramel)
Delicious Margarine
Magnolia Non-Refrigerated Margarine (Food Service)
Primex Shortening (Food Service)

Cheese

Magnolia Cheezee (Block, Spread, Squeeze - Cheddar, Pimiento, Milky White)
Daily Quezo
Magnolia Quickmelt
Magnolia Cheddar
Magnolia Cream Cheese (Block, Spread)
Magnolia Christmas Cheeseballs (Quezo de Bola, Gold Edam) - Seasonal

Magnolia Food Service Cheese

JELLY SNACKS AND DESSERTS

Jellyace Fruiteez
Jellyace Bites
Jellyace Suki Pack

MILK

Magnolia Chocolait
Magnolia Fresh Milk
Magnolia Low Fat Milk
Magnolia Full Cream Milk
Magnolia Non Fat Milk

SPECIALTY OILS

Magnolia Nutri-Oil Coconut Oil
Magnolia Nutri-Oil Palm Oil
Pure Oil
Cookbest Coconut Oil
Cookbest Canola Oil
Golden Fry Palm Oil

ALL-PURPOSE CREAM

Magnolia All-Purpose Cream

SALAD AIDS

Magnolia Real Mayonnaise
Magnolia Sandwich Spread
Magnolia All-Purpose Dressing

FLOUR MIXES

Magnolia Pancake
Magnolia All Purpose Flour
Magnolia Chocolate Cake Mix Collection
Magnolia Fast and Easy Bake Cake Mixes

ICE CREAM

Bulk Ice Cream

Magnolia Classic (Vanilla, Chocolate, Strawberry, Ube, Mango, Kesong Puti, Avocado, Pastillas)
Magnolia Gold Label (Double Dutch, Rocky Road, Cookies N' Cream, Salted Caramel Pretzel, Latte Choco Brownie)
Magnolia Best of the Philippines (Turon Dulce de Leche, Taro White Cheese, Tablea Yema, Quezo Mangosteen, Ube Salted Caramel Waffle, Mango Toffee Nut, Mango Dark Chocolate, Avocado Macchiato, Mango Salted Caramel, Ube Keso, Macapuno Caramel)
Magnolia Sorbetes (Tsokolate, Keso)

Frozen Novelties

Magnolia Spinner (Chocolate, Vanilla, Caramel, Hazelnut)
Magnolia Cookie Monster (Chocolate, Choco Hazelnut)
Magnolia Party Cups (Vanilla, Chocolate, Strawberry)
Magnolia Popsies (Orange Chill, Choco Cool)
Magnolia Twin Popsies (Orange, Chocolate)
Magnolia Pinipig Crunch (Vanilla Crisp)
Magnolia Creations Stick Ice Cream (Avocado, Mango Dark Chocolate, Kesong Puti)

San Miguel Gold Label (For Export)

SMGL Mellorine
SMGL Frozen Dessert
SMGL Ice Confectionery

SNACKS

Traditional

- Prima Toast
- Egg Cracklet
- Mamon Tostado
- Broas
- Puto Seko
- Camachile
- Ligaya

Cookies

- Pasencia
- Pasencia White
- Oat Cookies

Crackers

- Graham Crackers
- Graham Cracker Sandwich
- Crushed Graham
- Supreme Flakes

Assorted

- Holiday Mix
- Famous Five

Tuna

- Del Mar (For Export)

San Miguel Super Coffeemix Co., Inc.

Coffee

- San Mig Super Coffee Regular 3-in-1 Coffeemix - Original
- San Mig Super Coffee Sugar Free 3-in-1 Coffeemix - Mild, Original & Strong
- San Mig Super Coffee - Barako
- San Mig Super Coffee - Dos Original
- Essenso 3-in-1 Micro Ground Coffee
- San Mig Super Coffee - Sugar Free White
- San Mig Crema White Coffee
- San Mig White Coffee

San Miguel Foods, Inc. - Great Food Solutions (GFS)

Value-Added Meats

- Pizza Toppings
- Slices
- Specialties (Sauces & Ready-to-Serve Viands)
- Hotdogs and Deli

Dairy, Fats and Oils

- Butter, Margarine and Cheese
- Coconut & Palm Oil

Flour and Dry Bakery Ingredients

- Basic Flour and Premixes

Ice Cream

Coffee

Milk

Biscuits

SPAM

Traded Products

- Dairy
 - Mozzarella
 - Sliced-on-Slice Cheese
 - Parmesan

Olive Oil

- Pomace, Pure and EVOO Oil

Non Food Items

- Food Cling Wraps
- Aluminum Foil
- Baking Papers

GFS Commissary Products

- Breaded, Battered and Fried
- Patties
- Marinated Value-Added Meats
- Ready-to-Eat Meals

Foodcrave Marketing Inc.

Treats

- Baked Breads
- Ready-to-Eat Products
- Ice Cream
- Snacks and Beverages
- Edible Grocery Products

Chick 'n Juicy

- Big 'n Juicy Lechon Manok
- Big 'n Juicy Lechon Manok Quarter Meal
- Half Big 'n Juicy Lechon Manok
- Big 'n Crunchy Fried Chicken Meal (1 piece)
- Big 'n Crunchy Drumstick (1 piece)
- Big 'n Crunchy Drumstick (3+1 pieces)
- Garlic Roast Chicken
- Half Garlic Roast Chicken
- CNJ Brown Egg
- Spicy Neck

P.T. San Miguel Foods Indonesia

Bakso (Meat Balls)

- Farmhouse (Beef)
- Vida (Beef)

Sausages

Farmhouse (Sosis Sapi Goreng, Sosis Sapi, Beef Cocktail, Beef Frankfurter, Premium Beef, Premium Cheese, Premium Chicken)
Vida (Chicken, Beef)

Cold Cuts & Burger

Farmhouse (Smoked Beef, Beef Burger)
Purefoods Choice (Chicken Fajita Chunk, Chicken Luncheon, Minced Beef BBQ, Minced Chicken Teriyaki, Smoked Beef)

Services

Customization

San Miguel Pure Foods Vietnam (VN) Co., Ltd.**Value-Added Meats**

Le Gourmet (Bacon, Ham, Beef, Chicken, Pate, Sausage, Traditional, Meatball)
Tender Juicy Hotdog

2019 LIST OF PETRON PRODUCTS

PETRON PHILIPPINES

A. FUELS

Automotive Fuels

Petron Blaze 100 Euro 6
Petron XCS
Petron Xtra Advance
Petron Turbo Diesel
Petron Diesel Max

Industrial Fuels

Petron Fuel Oil

Aviation Fuels

Aviation Gasoline
Jet A-1

Household Fuels

Gasul
Fiesta
Gaas

B. AUTOMOTIVE LUBRICATING OILS

Diesel Engine Oils

Rev-X Turbo HTP
Rev-X Fully Synthetic
Rev-X Synthetic Blend
Rev-X Premium Multi-grade
Rev-X Multi-grade
Rev-X Pantra
Rev-X HD4X
Rev-X HD
Rev-X Hauler
Petron XD3
Petron Railroad Extra

Gasoline Engine Oils

Blaze Racing HTP
Blaze Racing Fully Synthetic
Blaze Racing Synthetic Blend
Blaze Racing Premium Multi-grade
Blaze Racing Multi-grade
Ultron Race / Fully Synthetic
Ultron Rallye / Synthetic Blend
Ultron Touring / Premium Multi-grade
Ultron Extra / Multi-grade
Petron MO

Motorcycle Oils

Petron Sprint 4T Fully Synthetic
Petron Sprint 4T Premium Multi-grade
Petron Sprint 4T Multi-grade
Petron Sprint 4T Monograde
Petron Sprint 4T Scooter Oil Fully Synthetic
Petron Sprint 4T Scooter Oil Synthetic Blend
Petron Sprint 4T Scooter Oil Premium Multi-grade
Petron Scooter Gear Oil
2T Powerburn
2T Premium
2T Autolube

Automotive Gear Oils

Petron GHTP Gear Oil
Petron GX
Petron GEP
Petron GST

Automotive Transmission Fluids

Petron ATF Premium HTP
Petron ATF Premium
Petron TF 38
Petron TDH 50

Other Automotive Oils

STM

C. INDUSTRIAL LUBRICATING OILS

Turbine, Hydraulic and Circulating Oils

Hydrotur AW 22 / 32 / 46 / 68 / 100
Hydrotur AWX 32 / 68 / 100
Hydrotur AW GT 32
Hydrotur EP 46
Hydrotur N 100
Hydrotur R 32 / 46 / 68 / 100 / 150 / 185 /
220 / 320
Hydrotur SX 68
Hydrotur T 32 / 46 / 68
Hydrotur TEP 68 / 77

Industrial Gear Oils

Hydrotur SX 220
Hypex EP 68 / 100 / 150 / 220 / 320 / 460 /
570 / 680 / 1000 / 4000 (Oil-Based)
Hypex EP 2K / 4K / 25K (Asphalt-Based)

Milrol 5K
Gearfluid 2K / 5K / 8K
Gearkote 3K / 22K / 68K
Petrocyl S 390 / 700
Petrocyl 680

Cutting Oils

Turnol 40
Petrokut 10 / 27

Refrigeration Oils

Zerflo 68
Zerflo P68

Transformer Oil

Voltran 60

Slideway Oil

Hydrotur SW 68
Hydrotur SW 220

Other Industrial Lubricating Oils

Airlube 100 / 150 / 320
Petrosine 68
Petron Universal Tractor Fluid - new

D. MARINE LUBRICATING OILS

Crosshead Engine Cylinder Oils

Petromar DCL 7050
Petromar DCL 4000 Series

Trunk Piston Engine Oils

Petromar HF 1040 / 1540
Petromar HF 2040
Petromar HF 3000 series
Petromar HF 4000 series
Petromar HF 5040 / 5540
Petromar XC 1030 / 1040 / 1050 / 1530 / 1540
Petromar XC 2030 / 2040
Petromar XC 3030 / 3040
Petromar XC 4040 / 4050
Petromar XC 5040 / 5540
Petron MS 9250 / 9370

Crosshead Engine System Oil

Petromar 65

Marine outboard 2-stroke oil

Petron Regatta

E. GREASES

Multi-purpose Greases

Petrogrease MP 2 / 3
Molygrease Premium
Petrogrease Premium

Water Resistant Grease

Petrogrease XX

Extreme Pressure Greases

Petrogrease EP 00 / 0 / 1 / 2
Molygrease EP 2
Molygrease EP 2P
Petrogrease EP 375

High Temperature Greases

Petrogrease HT

Complex Greases

Petron Grease HTP Lithium Complex – from
High Temperature Greases
Petron Premium Lithium Complex

F. ASPHALTS

Penetration Asphalt

Petropen

Cutback Asphalt

Petropen CB

Emulsified Asphalt

Petromul SS-1
Petromul CSS -1

Blown Asphalts

Asphaltseal
Asphalt Joint Sealer

Polymer Modified Bitumen

Petron Polymer Modified Bitumen

G. SPECIAL PRODUCTS

Process Oils

Stemol 68
Petrosine 68
Process Oil series

Heat Transfer Oil

Petrotherm 32

Cleaning Agent

Greaseaway

Greasolve

Protective Coatings

Petrokote 392

Marinekote

Autokote

Cablekote 70

H. AFTERMARKET SPECIALTIES

PetroMate Oil Saver

PetroMate Oil Improver

PetroMate Gas Saver

PetroMate Diesel Power Booster

PetroMate Engine Flush

PetroMate Super Coolant

PetroMate Clean N' Shine

PetroMate Penetrating Oil

PetroMate Greaseaway

PetroMate Carbon Buster

PetroMate Brake and Clutch Fluid

Petron Brake Fluid HTP DOT 4

**J. PERFORMANCE ADDITIVES &
CHEMICALS**

pCHEM DEF (Diesel Exhaust Fluid)

pCHEM 3500

pCHEM 3500F

pCHEM 140M

pCHEM 3500MF

pCHEM 500FS

pCHEM 1000

pCHEM 100X

pCHEM 3500M

pCHEM 3000DP

pCHEM 6000DP

pCHEM BT25

**LIST OF PRODUCTS AND SERVICES OF THE
SAN MIGUEL YAMAMURA PACKAGING GROUP**

As of December 31, 2019

PRODUCTS

- Glass containers
- Glass and PET molds
- PET preforms
- PET bottles
- Plastic closures
- Plastic crates and pallets
- Plastic tubes
- Plastic floorings
- Plastic pails and tubs
- Plastic films
- Flexibles packaging
- Metal closures
- Two-piece aluminum cans
- Corrugated cartons
- Industrial laminates
- Radiant barriers
- Woven polypropylene/kraft sacks
- Cork stoppers
- Hoods and capsules
- Barstop stoppers

SERVICES

- Pallet leasing
- Beverage filling for PET Bottles and Cans
- Graphics design
- Packaging development and consultation
- Contract packaging
- Trading
- Wine bottling services
- Logistics services, including trucking and warehousing.

San Miguel Properties, Inc. and Subsidiaries
List of Projects
as of December 31, 2019

A. RESIDENTIAL PROJECTS

PROJECTS	LOCATION
Dover Hill (Bright Ventures Realty, Inc.)	Mabini Street corner Ortega and Pilar Streets, Barangay Addition Hills, San Juan
One Dover View (Carnell Realty, Inc.)	621 Lee Street, Barangay Addition Hills, Mandaluyong
Two Dover View (SMPI)	620 Lee Street, Barangay Addition Hills, Mandaluyong
Emerald 88 (SMPI)	598 Dr. Sixto Antonio Avenue, Barangay Maybunga, Pasig
Bel Aldea (SMPI)	Brgy. De Fuego Street, General Trias, Cavite
Maravilla (SMPI)	Brgy. San Francisco, General Trias, Cavite
Asian Leaf (SMPI)	Brgy. San Francisco, General Trias, Cavite
Wedgewoods (Excel Unified Land Resources, Inc.)	Sta. Rosa, Laguna

B. HOSPITALITY PROJECTS

PROJECTS	LOCATION
Makati Diamond Residences (SMPI Makati Flagship Realty Corporation)	118 Legazpi St., Legazpi Village, Makati

C. INDUSTRIAL PROJECTS

PROJECTS	LOCATION
Mariveles Economic Zone (E-Fare Investment Holdings, Inc.)	Mariveles, Bataan

D. SMPI-OWNED BUILDINGS / LAND / WAREHOUSE

PROJECTS	LOCATION
Building and Land Lease of San Miguel Corporation Head Office Complex (SMPI)	No. 40 San Miguel Avenue, Ortigas, Mandaluyong City
Building Lease of 808 Building (SMPI)	Meralco Avenue corner Gen. Lim Street, Barangay San Antonio, Pasig City
Building Lease of Six (6) Units in San Miguel Properties Centre (SMPI)	No. 7 Saint Francis Street, Ortigas, Mandaluyong City
Land Lease of Cauayan, Isabela Property (SMPI)	National Highway, Brgy. Prenza, Cauayan, Isabela
Warehouse Lease of Rengo Warehouse and Land Lease of Sucat Property (SMPI)	Dr. A. Santos Avenue (Sucat Road), Parañaque
Building Lease of Delgado Building (La Verduras Realty Corp.)	No. 38 Gen. Delgado St., San Antonio Village, Brgy. San Antonio, Pasig City

Land Lease of Bunawan, Davao City Property (SMPI)	Along Davao-Agusan National Highway, Brgy. Bunawan, Davao City
Land Lease of Antipolo City Property (SMPI)	Crestview Circle, Crestview Heights Subd., Brgy. San Roque, Antipolo City
Land Lease of Parking Space for El Magnifico Building (Kingsborough Realty, Inc.)	No. 37 Gen. Delgado St., San Antonio Village, Brgy. San Antonio, Pasig City
Land Lease of General Trias, Cavite Property (SMPI)	Arnaldo Highway, Brgy. San Francisco, Gen. Trias, Cavite Arnaldo Highway, Brgy. San Francisco, Sitio De Fuego, Gen. Trias, Cavite

E. TOURISM DEVELOPMENT PROJECTS

PROJECTS	LOCATION
Boracay Gateway Project Tourism Zone (La Belle Plume Realty, Inc.)	Brgy. Union, Nabas, Aklan / Brgy. Malay, Caticlan, Aklan
Beachfront Resort Hotel and Spa (Moonspring Development Inc.)	Brgy. Union, Nabas, Aklan
Aqean Bay Waterpark (Newsapes Haven Development Inc.)	Brgy. Union, Nabas, Aklan
Transit Hotel (Caticlanscapes Realty Development Inc.)	Brgy. Union, Nabas, Aklan

ANNEX “F”

**SAN MIGUEL CORPORATION
2019
List of Collective Bargaining Agreements**

COLLECTIVE BARGAINING AGREEMENTS
As of Dec. 31, 2019

BANK OF COMMERCE

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	EXPIRATION	
			Economic	Representation
Bank of Commerce Employees Union	791	1	June 30, 2020	June 30, 2020

GINEBRA SAN MIGUEL INC.

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	EXPIRATION	
			Economic	Representation
GSMI - Cebu Plant (Dailies) - Ginebra San Miguel Inc. FREEWAS Daily Paid Employees Union	22	1	December 31, 2021	December 31, 2023
GSMI - Cabuyao Plant (Dailies) - United Independent Union of GSMI-Cabuyao Plant	76	1	December 31, 2020	December 31, 2022
GSMI - Sta Barbara Plant (Dailies) - Daily Paid Workers Independent Union	63	1	December 31, 2019	March 31, 2022
GSMI - Sta Barbara Plant (Monthlies) - La Tondeña Distillers Independent Workers Union (LATODIWU)	18	1	December 31, 2019	March 31, 2022
Distilleria Bago Inc. (Monthlies) - Distilleria Bago Employees Union Congress of Independent Organizations - (CIO - DBEU)	88	1	December 31, 2019	December 31, 2021
	267	5		

PETRON CORPORATION

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	Expiration	
			Economic	Representation
Petron Corporation (Head Office Complex, Depots) - Petron Employees Association (PEA - NATU)	184	1	December 31, 2019	December 31, 2021
Petron Corporation (Pandacan, Navotas and Batangas) - Petron Employees Labor Union (PELU)	45	1	December 31, 2021	December 31, 2023
Petron Corporation (Bataan) - Bataan Refiners Union of the Philippines (BRUP - PTGWO)	438	1	December 31, 2021	December 31, 2021
Total:	667	3		

SAN MIGUEL BREWERY INC.

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	Expiration	
			Economic	Representation
Concerned Workers of SMC – Polo Brewery	266	1	30-Jun-22	July 12, 2020
SMBI Employees Union (SMBIEU) – PTGWO (Monthlies – Polo)	92	1	30-Jun-22	30-Jun-24
San Fernando Brewery Employees Union (SFBEU) –(Dailies)	330	1	Feb. 15, 2020	Feb. 15, 2020
San Miguel Brewery Inc. Employees Union (SMBIEU-SFB)-Monthlies	97	1	Dec. 31, 2019	Dec. 31, 2019
New San Miguel Corporation Sales Force Union- GMA Sales	66	*1	Jan. 31, 2020	Jan. 31, 2020
GMA-Monthlies Employees Union – GMAEU-PTGWO	76	1	June 30, 2022	June 30, 2024
San Miguel Brewing Group - Bacolod Brewery Employees Union (SMBG-BBEU) (Dailies)	85	1	July 31, 2022	Apr. 27, 2024
Philippine Agricultural, Commercial and Industrial Workers Union-Trade Union Congress of the Philippines (PACIWU-TUCP) (Bacolod Monthlies)	48	1	Oct. 31, 2022	Oct. 31, 2024
Kahugpongong Sa Ligdong Mamumu-O (KLM) (Dailies) (Mandaue)	188	1	Dec. 31, 2020	Dec. 31, 2020
San Miguel Davao Brewery Employees Independent Union (Dailies)	101	1	Nov. 30, 2021	Nov. 30, 2022
	1349	10		

SAN MIGUEL FOOD GROUP

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	Expiration	
			Economic	Representation
Magnolia Inc. (Dailies) Progressive Workers' Union - IBM Local 47 KMU (PWU- IBM KMU)	158	1	February 28, 2020	February 28, 2020
San Miguel Foods Inc. (GMA Monthlies)- SMFI Employees Union (SMFIEU) - PTGWO	154	1	December 31, 2019	October 22, 2021
San Miguel Foods Inc. - South Luzon SMFI Poultry (Monthlies) - Magnolia Poultry Employees Union - PTGWO	32	1	December 31, 2019	June 30, 2021
San Miguel Mills, Inc. - Mabini Batangas Flour Mill Employees Union (Monthlies) - Purefoods Flour Mill Employees Union - (PFMEU)	36	1	December 31, 2019	July 31, 2022
	380	4		

SMC INFRASTRUCTURE

Installation, Bargaining Agent & Affiliation	Number of CBU/ Members	Number of CBAs	Expiration	
			Economic	Representation
Manila North Harbor Inc. (Dailies & Monthlies)- Waterfront Workers Union - North Harbor Inc.	892	1	November 30, 2020	November 30, 2022
Star Tollway Corporation Toll Teller Association (Monthlies)	132	1	July 31, 2019	July 31, 2021
Malayang Samahan ng Toll Tellers sa MATES - Workers Solidarity Network	649	on going negotiation		
	1673	2		

SAN MIGUEL YAMAMURA PACKAGING CORPORATION

Installation, Bargaining Agent & Affiliation	Number of Members	Number of CBAs	EXPIRATION	
			ECONOMIC	REPRESENTATION
SMC Yamamura Fuso Molds Corporation (Monthlies) - SMC Yamamura Fuso Molds Monthlies Union - PTGWO PTGWO Local Chapter 842	54	1	Dec. 31, 2021	December 31, 2023
San Miguel Yamamura Corporation (Ex-Parent) Manila Plastics Plant (Monthlies) San Miguel Packaging Specialists, Inc Employees Union - Manila Plastics Plant - PTGWO Local 888	64	1	June 30, 2022	June 30, 2022
San Miguel Yamamura Corporation (Ex-Parent) Manila Glass Plant (Monthlies) San Miguel Yamamura Packaging Corp. Employees Union - Manila Glass Plant - Association of Genuine Labor Organization (SMYPCEU-MGP-AGLO)	167	1	June 30, 2022	June 30, 2022
San Miguel Yamamura Corporation (Ex-Parent) - Metal Closure & Lithography Plant - (Monthlies) San Miguel Packaging Specialists, Inc Employees Union - Metal Closure & Lithography Plant - PTGWO Local 890	32	1	June 30, 2022	June 30, 2022
Mindanao Corrugated Fireboard, Inc. (Monthlies)Mincorr Independent Workers Union - Alliance of Progressive Labor - Sentro ng mga Nagkakaisa at Progresibong Manggagawa (MIWU=APL-SENTRO)	65	1	Dec. 31, 2019	Dec. 31, 2022
San Miguel Packaging Specialists, Inc. Canlubang PET and CAPS Plant (Monthlies) SAMAHAN ng MALAYANG MANGGAGAWA sa BPSI-Canlubang-PTGWO	25	1	Dec. 31, 2019	June 13, 2022
Can Asia, Inc. - Monthlies Union - San Miguel Yamamura Packaging Corporation - Can Asia, Inc. (Independent Union)	84	1	Dec. 31, 2019	Dec. 31, 2019
SMC Yamamura Asia Corporation (Monthlies) Union Buo Organisadong Samahan ng Empleyado sa SMYAC - Independent (BOSES-SMYAC)	456	1	Dec. 31, 2019	April 01, 2023
Rightpak International Corporation (Monthlies) - Rightpak Employees Union - PTGWO	126	1	May 31, 2020	May 31, 2022
SMYPC - Mandaue Packaging Plants (Glass, MCLP, Power) (Dailies) Kahugpong Sa Ligdong Mamumuo - SMPsi Mandaue (KLM-SMPsi Mandaue)	68	1	Dec. 31, 2020	Dec. 31, 2020
	1,141	10		
TOTAL	6,268	35		

ANNEX “G”

SAN MIGUEL CORPORATION
2019
List of Top 20 Stockholders

ssst823
2020-05-04
03:12:07 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Common	TOTAL SHARES	% OF O/S
1	TOP FRONTIER INVESTMENT HOLDINGS, INC.	1,573,100,340	1,573,100,340	65.988615 %
2	PRIVADO HOLDINGS, CORP.	368,140,516	368,140,516	15.442806 %
3	PCD NOMINEE CORPORATION (FILIPINO)	169,850,342	169,850,342	7.124904 %
4	PCD NOMINEE CORPORATION (NON-FILIPINO)	48,727,454	48,727,454	2.044025 %
5	PCD NOMINEE CORPORATION	36,077,757	36,077,757	1.513394 %
6	PCGG IN TRUST FOR THE COMPREHENSIVE AGRARIAN REFORM PROGRAM	27,636,339	27,636,339	1.159293 %
7	PETRON CORPORATION EMPLOYEES' RETIREMENT PLAN	12,237,100	12,237,100	0.513323 %
8	MILLENNIUM ENERGY, INC.	10,807,380	10,807,380	0.453349 %
9	EDUARDO M. COJUANGCO JR.	3,828,702	3,828,702	0.160607 %
10	SYSMART CORPORATION	3,457,000	3,457,000	0.145015 %
11	MARINE SHORE INVESTMENT HOLDINGS, INC.	2,089,660	2,089,660	0.087657 %
12	EVERETT STEAMSHIP CORPORATION	1,903,330	1,903,330	0.079841 %
13	GINGOOG HOLDINGS CORPORATION	1,830,082	1,830,082	0.076769 %
14	RAMON S. ANG	1,345,429	1,345,429	0.056438 %
15	MACRINA LEYSON	1,144,752	1,144,752	0.048020 %
16	CARMEL OF THE DIVINE INFANT JESUS OF PRAGUE INC. A/C NO 2	957,516	957,516	0.040166 %
17	PAC RIM REALTY & DEVELOPMENT CORP.	912,050	912,050	0.038259 %
18	THE ROMAN CATHOLIC BISHOP OF TUGUEGARAO	856,639	856,639	0.035934 %
19	REAL MONASTERIO DE LA PURISIMA CONCEPCION DE NUESTRA MADRE SANTA CLARA DE MANILA	810,282	810,282	0.033990 %
20	CHENG SIOK TUAN	689,113	689,113	0.028907 %
		2,266,401,783	2,266,401,783	95.071313 %

TOTAL NO. OF SHARES : 2,383,896,588
TOTAL NO. OF DISTINCT STOCKHOLDERS : 34,149
TOTAL NO. OF ACCOUNTS : 34,164

ssst823
2020-05-04
03:14:23 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-C	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION	222,240,905	222,240,905	86.962524 %
2	G & E SHAREHOLDINGS INC.	15,000,000	15,000,000	5.869477 %
3	PRYCE CORPORATION	2,803,230	2,803,230	1.096900 %
4	GSIS PROVIDENT FUND	2,666,700	2,666,700	1.043476 %
5	PRYCE GASES, INC.	2,612,040	2,612,040	1.022087 %
6	KNIGHTS OF COLUMBUS FRATERAL ASSOCIATION OF THE PHILS., INC.	1,333,300	1,333,300	0.521718 %
7	PCD NOMINEE CORPORATION (NON-FILIPINO)	1,298,670	1,298,670	0.508168 %
8	INSIGNE FORTUNA HOLDINGS INC.	800,000	800,000	0.313039 %
9	ALLIED BANKING CORPORATION-TRUST AND INVESTMENTS DIVISION AS TRUSTEE FAO TA#312340	666,000	666,000	0.260605 %
10	MICHAEL ANGELO P. LIM OR PINKY ROSE P. LIM	359,900	359,900	0.140828 %
11	FREDDIE C. GONZALES	333,300	333,300	0.130420 %
12	PGI RETIREMENT FUND, INC.	271,540	271,540	0.106253 %
13	PCD NOMINEE CORPORATION (FILIPINO)	263,350	263,350	0.103048 %
14	CHING BUN TENG, CHIONG PING GO CHING, GIOVANNA JOY TAN ONGKING	250,000	250,000	0.097825 %
15	BUN TENG CHING OR CHIONG PING GO CHING OR GIOVANNA JOY TAN ONGKING	250,000	250,000	0.097825 %
16	FERDINAND K. CONSTANTINO	200,000	200,000	0.078260 %
17	FIRST LIFE FINANCIAL CO., INC.	199,800	199,800	0.078181 %
18	G.D. TAN & CO., INC.	180,000	180,000	0.070434 %
19	RICHARD M. TIONGCO OR TIONGCO ADORACION P.	172,880	172,880	0.067648 %
20	MANILA BANKERS LIFE INSURANCE CORPORATION	172,500	172,500	0.067499 %
		252,074,115	252,074,115	98.636213 %
TOTAL NO. OF SHARES :		255,559,400		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		183		
TOTAL NO. OF ACCOUNTS :		184		

ssst823
2020-05-04
03:15:56 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-D	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	82,496,580	82,496,580	92.346849 %
2	SAN MIGUEL BREWERY INC. RETIREMENT PLAN	2,666,700	2,666,700	2.985110 %
3	KNIGHTS OF COLUMBUS FRATERAL ASSOCIATION OF THE PHILS., INC.	995,700	995,700	1.114589 %
4	A & D OLYMPUS HOLDINGS CORP	800,000	800,000	0.895522 %
5	PCD NOMINEE CORPORATION (NON-FILIPINO)	442,430	442,430	0.495257 %
6	PRYCE CORPORATION	124,650	124,650	0.139533 %
7	JAMES C. CO OR JEWEL M. CO	80,100	80,100	0.089664 %
8	IBONET YU LING OR HUAFENG B. LING	60,400	60,400	0.067612 %
9	HENRY S. TAN OR LAIPO M. TAN	60,000	60,000	0.067164 %
10	MERALCO EMPLOYEES SAVINGS AND LOAN ASSOCIATION, INC.	50,500	50,500	0.056530 %
11	DEWEY T. TAN	45,800	45,800	0.051269 %
12	DEO A. REYES OR ELENA C. REYES	40,000	40,000	0.044776 %
13	TEODORO R. CASTRO OR MERCEDES A. CASTRO OR MICHAEL A. CASTRO	40,000	40,000	0.044776 %
14	TEODORO R. CASTRO OR MERCEDES A. CASTRO	40,000	40,000	0.044776 %
15	TEODORO R. CASTRO OR MERCEDES A. CASTRO OR TRICIA A. CASTRO	40,000	40,000	0.044776 %
16	RODOLFO C. TIU OR MARY C. TIU	40,000	40,000	0.044776 %
17	PCD NOMINEE CORPORATION	37,240	37,240	0.041687 %
18	LILIAN D. BARCELONA	36,400	36,400	0.040746 %
19	JAVIER P. LOZADA, JR.	36,000	36,000	0.040298 %
20	MICHAEL YAO LUI OR GIDGET TAN LUI	35,000	35,000	0.039179 %
		88,167,500	88,167,500	98.694889 %
TOTAL NO. OF SHARES :		89,333,400		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		166		
TOTAL NO. OF ACCOUNTS :		166		

ssst823
2020-05-04
03:18:59 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-E	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	121,395,412	121,395,412	90.593523 %
2	SAN MIGUEL BREWERY INC. RETIREMENT PLAN	1,333,400	1,333,400	0.995074 %
3	SAN MIGUEL FOODS, INC. RETIREMENT PLAN	1,333,300	1,333,300	0.994999 %
4	SAN MIGUEL YAMAMURA PACKAGING CORP. RETIREMENT PLAN	1,333,300	1,333,300	0.994999 %
5	PCD NOMINEE CORPORATION (NON-FILIPINO)	792,620	792,620	0.591507 %
6	CAROLINA N. DIONISIO	350,000	350,000	0.261194 %
7	RCBC SECURITIES, INC.	331,800	331,800	0.247612 %
8	PRYCE CORPORATION	271,250	271,250	0.202425 %
9	SOTA PHILIPPINES, INC.	266,700	266,700	0.199030 %
10	ISABEL B. LAGMAN	266,600	266,600	0.198955 %
11	ROSA A. PENA OR BENJAMIN V. AQUINO OR NORMAN M. AQUINO	261,900	261,900	0.195448 %
12	ANGELITA S. BRAGANZA	227,000	227,000	0.169403 %
13	MA. CONCEPCION ASUNCION OR MON OR MARTHA OR MIGUEL OR MARCO	200,000	200,000	0.149254 %
14	PCD NOMINEE CORPORATION	185,588	185,588	0.138498 %
15	MA. LOURDES C. FERNANDO	160,000	160,000	0.119403 %
16	BENJAMIN V. AQUINO OR NORMAN M. AQUINO OR MARIA LUZ G. AQUINO	155,000	155,000	0.115672 %
17	ANDREW D. DIMACALI OR CORALIE THERESE D. DIMACALI	133,400	133,400	0.099552 %
18	MELCHOR S. CALUAG OR VILMA OR MA. NICOLE OR JUAN PAOLO OR ALFRED GABRIEL B. CALUAG	133,400	133,400	0.099552 %
19	ROSALINDA R. VELASQUEZ OR OLIVER R. VELASQUEZ	133,300	133,300	0.099478 %
20	INTERNATIONAL ELECTRONICS AND TECHNICAL INSTITUTE, INC.	117,000	117,000	0.087313 %
		129,380,970	129,380,970	96.552891 %
TOTAL NO. OF SHARES :		134,000,100		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		261		
TOTAL NO. OF ACCOUNTS :		261		

ssst823
2020-05-04
03:23:23 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-F	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	193,079,180	193,079,180	86.453300 %
2	SAN MIGUEL BREWERY INC. RETIREMENT PLAN	8,000,000	8,000,000	3.582087 %
3	SOCIAL SECURITY SYSTEM	7,328,500	7,328,500	3.281415 %
4	SAN MIGUEL CORP. RETIREMENT PLAN FIP	5,333,400	5,333,400	2.388088 %
5	PCD NOMINEE CORPORATION (NON-FILIPINO)	1,732,930	1,732,930	0.775938 %
6	DIVERSIFIED AGROCHEMICALS TRADING CORPORATION	1,000,000	1,000,000	0.447761 %
7	T. D. MAKAO INC.	707,000	707,000	0.316567 %
8	GATELUCK CORPORATION	667,000	667,000	0.298656 %
9	RCBC SECURITIES, INC.	544,900	544,900	0.243985 %
10	FIRST LIFE FINANCIAL CO., INC.	533,500	533,500	0.238880 %
11	BEN TIUK SY OR JUDY YU SY	335,000	335,000	0.150000 %
12	AUGUSTO MANUEL A. AGUSTIN &/OR DORIS NUBLA AGUSTIN	320,000	320,000	0.143283 %
13	MICHAEL A. CASTRO OR TRICIA C. ODEJAR	280,000	280,000	0.125373 %
14	PEO LIM OR ENRICO OR LOURDES POSADAS	266,700	266,700	0.119418 %
15	PRYCE CORPORATION	212,630	212,630	0.095207 %
16	BAGUIO GAS CORPORATION	200,000	200,000	0.089552 %
17	MARIA TERESA Q. LIM OR MANUEL B. QUIMPO OR WILSON B. QUIMPO OR MERLY Q. BANTING OR MYRNA Q. NG	133,400	133,400	0.059731 %
18	ANTONIO G. TINSAY &/OR IRENE C. TINSAY &/OR JOIE C. TINSAY	118,000	118,000	0.052836 %
19	JOSELITO PULMANO OBAR OR MA. ZORAIDA CUACHON OBAR	112,000	112,000	0.050149 %
20	ROLANDO A. ARALAR OR MYRNA I. ARALAR OR RONALD I. ARALAR	111,000	111,000	0.049701 %
		221,015,140	221,015,140	98.961929 %
TOTAL NO. OF SHARES :		223,333,500		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		145		
TOTAL NO. OF ACCOUNTS :		145		

ssst823
2020-05-04
03:28:36 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-G	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	60,538,215	60,538,215	90.807413 %
2	SAN MIGUEL CORPORATION RETIREMENT PLAN - STP	2,266,500	2,266,500	3.399753 %
3	PCD NOMINEE CORPORATION (NON-FILIPINO)	454,490	454,490	0.681736 %
4	DBC MACHINERIES CORPORATION	375,100	375,100	0.562651 %
5	GATELUCK CORPORATION	199,200	199,200	0.298800 %
6	INSIGNE FORTUNA HOLDINGS INC.	141,400	141,400	0.212100 %
7	DORIS N. AGUSTIN OR AUGUSTO MANUEL A. AGUSTIN	132,400	132,400	0.198600 %
8	PRYCE CORPORATION	130,000	130,000	0.195000 %
9	JOSEFINA GUTIERREZ CASTILLO OR CYNTHIA GUTIERREZ CASTILLO	119,500	119,500	0.179250 %
10	S. T. DE GUZMAN ENTERPRISES, INC.	95,000	95,000	0.142500 %
11	JOHN PAYPON BARCELONA	83,600	83,600	0.125400 %
12	FIL-ANASERVE, INC.	80,000	80,000	0.120000 %
13	PIA JOSEFINA HERNANDEZ POSADAS OR LOURDES LIM POSADAS	79,700	79,700	0.119550 %
14	A & D OLYMPUS HOLDINGS CORP	79,000	79,000	0.118500 %
15	KNIGHTS OF COLUMBUS FRATERAL ASSOCIATION OF THE PHILS., INC.	66,000	66,000	0.099000 %
16	MERLY QUIMPO BANTING OR MYRNA QUIMPO NG OR MARIA TERESA QUIMPO LIM	51,400	51,400	0.077100 %
17	EMMANUEL GONZALES UMALI OR JAMES STEPHEN CASABAR UMALI	50,200	50,200	0.075300 %
18	JAMES CO OR JEWEL CO	40,000	40,000	0.060000 %
19	PRYCE GASES, INC.	40,000	40,000	0.060000 %
20	BEN TIUK SY OR JUDY Y.	40,000	40,000	0.060000 %
		-----	-----	-----
		65,061,705	65,061,705	97.592655 %
		=====	=====	=====

TOTAL NO. OF SHARES :	66,666,600
TOTAL NO. OF DISTINCT STOCKHOLDERS :	241
TOTAL NO. OF ACCOUNTS :	241

ssst823
2020-05-04
03:30:55 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-H	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	157,042,960	157,042,960	95.757902 %
2	PCD NOMINEE CORPORATION (NON-FILIPINO)	1,283,540	1,283,540	0.782646 %
3	SAN MIGUEL CORP. RETIREMENT PLAN FIP	1,113,500	1,113,500	0.678963 %
4	MARCELINO REYES TEODORO	637,000	637,000	0.388415 %
5	MERIDIAN ASSURANCE CORPORATION	270,000	270,000	0.164634 %
6	GUINEVERE TAN GO	240,800	240,800	0.146829 %
7	BEN TIUK SY OR JUDY Y. SY	207,900	207,900	0.126768 %
8	RUPERTO CO TAN OR SIOCK HA GO TAN	192,700	192,700	0.117500 %
9	MARCELINA ARMEDILLA DE LEON	147,000	147,000	0.089634 %
10	MARIA CONCEPCION ASUNCION OR MON EDUARDO OR MARTHA ELAINE OR MIGUEL ENRICO OR MARCO EVELIO ASUNCION	141,200	141,200	0.086098 %
11	FELICITO C. CHAVEZ	137,600	137,600	0.083902 %
12	MARIA TERESA QUIMPO LIM OR MANUEL BONCOLMO QUIMPO OR MERLY QUIMPO BANTING OR MYRNA QUIMPO NG	134,000	134,000	0.081707 %
13	KNIGHTS OF COLUMBUS FRATERAL ASSOCIATION OF THE PHILS., INC.	132,400	132,400	0.080732 %
14	MARK CLINTON GO TAN OR ANABEL SOTINGCO TAN	130,700	130,700	0.079695 %
15	VIC IMPERIAL APPLIANCE CORPORATION	128,000	128,000	0.078049 %
16	INSIGNE FORTUNA HOLDINGS INC.	123,600	123,600	0.075366 %
17	HONG CHIA CHUAN OR TSAI HONG SHA	100,000	100,000	0.060976 %
18	LEAH ALVAREZ MENDOZA	91,700	91,700	0.055915 %
19	DEWEY T. TAN	68,800	68,800	0.041951 %
20	ALEJANDRO FRAGO UY OR APOLONIA AGNES BAGSIT UY	64,300	64,300	0.039207 %
		----- 162,387,700 =====	----- 162,387,700 =====	----- 99.016890 % =====
TOTAL NO. OF SHARES :		164,000,000		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		160		
TOTAL NO. OF ACCOUNTS :		160		

ssst823
2020-05-04
03:31:58 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred 2-I	TOTAL SHARES	% OF O/S
1	PCD NOMINEE CORPORATION (FILIPINO)	149,136,330	149,136,330	88.072601 %
2	SAN MIGUEL BREWERY INC. RETIREMENT PLAN	6,153,600	6,153,600	3.634014 %
3	SAN MIGUEL CORP. RETIREMENT PLAN FIP	2,900,000	2,900,000	1.712598 %
4	PCD NOMINEE CORPORATION (NON-FILIPINO)	2,032,420	2,032,420	1.200248 %
5	GINGOOG HOLDINGS CORPORATION	1,590,000	1,590,000	0.938976 %
6	METROPLEX HOLDINGS CORPORATION	1,578,000	1,578,000	0.931889 %
7	LUCENA HOLDINGS CORPORATION	1,332,000	1,332,000	0.786614 %
8	SAN MIGUEL CORPORATION RETIREMENT PLAN - STP	900,000	900,000	0.531496 %
9	FIRST LIFE FINANCIAL CO., INC.	400,000	400,000	0.236220 %
10	CHING BUN TENG TIU &/OR CHING CHIONG PING GO &/OR ONGKING GIOVANNA JOY TAN	238,700	238,700	0.140965 %
11	CHIONG PING G. CHING AND/OR MARIA GRACIA J. TAN	238,700	238,700	0.140965 %
12	CHING HUAY LO SY OR JAMIE BERNADETTE ANG SY OR JUSTIN AARON ANG SY	216,800	216,800	0.128031 %
13	ANTONIO G. TINSAY &/OR JOIE C. TINSAY &/OR IRENE C. TINSAY	200,000	200,000	0.118110 %
14	PRYCE GASES, INC.	180,030	180,030	0.106317 %
15	JOHNSON CHEONG GO OR MARY ONG GO	133,500	133,500	0.078839 %
16	JOHNSON CHEONG GO OR JOVENTINO CHEONG GO	133,500	133,500	0.078839 %
17	KNIGHTS OF COLUMBUS FRATERAL ASSOCIATION OF THE PHILS., INC.	133,200	133,200	0.078661 %
18	DAVID GO CHIONG OR MARIA VILMA YU CHIONG OR DELWYN VINCE YU CHIONG	126,700	126,700	0.074823 %
19	EDSEL U. LIM OR RUTH KATHERINE K. LIM	120,100	120,100	0.070925 %
20	HONG CHIA CHUAN OR TSAI HONG SHA	100,000	100,000	0.059055 %
		167,843,580	167,843,580	99.120185 %
TOTAL NO. OF SHARES :		169,333,400		
TOTAL NO. OF DISTINCT STOCKHOLDERS :		93		
TOTAL NO. OF ACCOUNTS :		93		

ssst823
2020-05-04
03:33:23 PM

San Miguel Corporation
STOCK TRANSFER MODULE
List of Stockholders
As of Dec 31, 2019

PAGE 1

RANK	STOCKHOLDER NAME	Preferred S1	TOTAL SHARES	% OF O/S
1	METROPLEX HOLDINGS CORPORATION	106,174,534	106,174,534	38.000000 %
2	LUCENA HOLDINGS CORPORATION	89,410,133	89,410,133	32.000000 %
3	GINGOOG HOLDINGS CORPORATION	83,822,000	83,822,000	30.000000 %
		-----	-----	-----
		279,406,667	279,406,667	100.000000 %
		=====	=====	=====

TOTAL NO. OF SHARES :	279,406,667
TOTAL NO. OF DISTINCT STOCKHOLDERS :	3
TOTAL NO. OF ACCOUNTS :	3

ANNEX “H”

SAN MIGUEL CORPORATION
2019
List of 17-C Filings

SAN MIGUEL CORPORATION 17-C - 2019

Date Reported	Subject																				
Jan. 3	Disclosure of the Company relating to the news article entitled "SMC-Meralco consortium investing P99b in coal plant," posted in manilastandard.net on January 2, 2019.																				
Jan. 24	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, January 24, 2019, the Board of Directors of the Corporation declared cash dividends to be paid out of the unrestricted retained earnings of the Corporation as of December 31, 2018, distributable as dividends to all stockholders of record as of March 22, 2019 on the following shares of the Corporation to be paid on April 5, 2019, as follows:</p> <table border="1"> <thead> <tr> <th><u>Class of Shares</u></th><th><u>Dividend Amount per share</u></th></tr> </thead> <tbody> <tr> <td>Series "1" Preferred Shares</td><td>₱1.0565625</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "B"</td><td>₱1.4296875</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "C"</td><td>₱1.50</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "D"</td><td>₱1.11433125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "E"</td><td>₱1.18603125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "F"</td><td>₱1.27635</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "G"</td><td>₱1.23361875</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "H"</td><td>₱1.1854125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "I"</td><td>₱1.18790625</td></tr> </tbody> </table> <p>The books of the Corporation will be closed from March 25-29, 2019.</p>	<u>Class of Shares</u>	<u>Dividend Amount per share</u>	Series "1" Preferred Shares	₱1.0565625	Series "2" Preferred Shares - Subseries "B"	₱1.4296875	Series "2" Preferred Shares - Subseries "C"	₱1.50	Series "2" Preferred Shares - Subseries "D"	₱1.11433125	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
<u>Class of Shares</u>	<u>Dividend Amount per share</u>																				
Series "1" Preferred Shares	₱1.0565625																				
Series "2" Preferred Shares - Subseries "B"	₱1.4296875																				
Series "2" Preferred Shares - Subseries "C"	₱1.50																				
Series "2" Preferred Shares - Subseries "D"	₱1.11433125																				
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																				
Feb. 26	<p>Further to our disclosure on September 11, 2018, we advise the Exchange that San Miguel Corporation (SMC) was informed by counsel, that the latter received on February 22, 2019 a copy of the Decision dated February 19, 2019, rendered by the Special Hearing Panel of the Securities and Exchange Commission (SEC) in the case entitled "Josefina Multi-Ventures Corporation vs. San Miguel Corporation, San Miguel Food and Beverage, Inc., and Ginebra San Miguel Inc." docketed as SEC Case No. 05-18-468.</p> <p>The Petitioner claims that the share swap transaction between SMC and San Miguel Food and Beverage, Inc. (SMFB), wherein SMC transferred its common shares in Ginebra San Miguel Inc. (GSMI) in exchange for new common shares of SMFB (the "GSMI Share Swap"), required the conduct of a mandatory tender offer under the rules of the Securities Regulation Code. Specifically, the Petition questions the GSMI Share Swap and the corresponding increase in SMFB's authorized capital stock for failing to comply with the SRC's implementing rules and regulations.</p>																				

	<p>The Petitioner prayed that the share swap transaction between SMFB and SMC and the approval of increase in the authorized capital stock of SMFB be declared null and void for violation of the rules on mandatory tender offer; or, in the alternative, the Petitioner requests the SEC to direct SMFB to conduct a mandatory tender offer for GSML's minority shareholders to swap their shares for SMFB shares under the terms of the GSML Share Swap.</p> <p>The SEC Special Hearing Panel dismissed the petition for lack of merit.</p>										
March 14	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, March 14, 2019, the Board of Directors of the Corporation declared cash dividends on the common shares of the Corporation in the amount of P0.35 per common share.</p> <p>The dividend payment date is on May 3, 2019, to be paid out of the unrestricted retained earnings of the Corporation distributable as dividends as of December 31, 2018. Payment shall be made to the stockholders of record of the aforementioned common shares as of April 5, 2019. The books of the Corporation will be closed from April 8 to 15, 2019.</p>										
March 14	<p>During the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, March 14, 2019, the Board of Directors approved the following schedule of the stockholders' meeting of the Company.</p> <p style="text-align: center;"><u>2019 Annual Stockholders Meeting</u></p> <table border="1"> <tr> <td>Date of Annual Stockholders' Meeting</td><td>June 11, 2019 2:00 p.m. Valle Verde Country Club</td></tr> <tr> <td>Record Date for Stockholders Entitled to Vote</td><td>May 10, 2019</td></tr> <tr> <td>Closing of Stock and Transfer Book</td><td>May 13 to 17, 2019</td></tr> <tr> <td>Deadline for Submission of Proxies</td><td>May 27, 2019</td></tr> <tr> <td>Validation of Proxies</td><td>June 3, 2019</td></tr> </table>	Date of Annual Stockholders' Meeting	June 11, 2019 2:00 p.m. Valle Verde Country Club	Record Date for Stockholders Entitled to Vote	May 10, 2019	Closing of Stock and Transfer Book	May 13 to 17, 2019	Deadline for Submission of Proxies	May 27, 2019	Validation of Proxies	June 3, 2019
Date of Annual Stockholders' Meeting	June 11, 2019 2:00 p.m. Valle Verde Country Club										
Record Date for Stockholders Entitled to Vote	May 10, 2019										
Closing of Stock and Transfer Book	May 13 to 17, 2019										
Deadline for Submission of Proxies	May 27, 2019										
Validation of Proxies	June 3, 2019										
March 14	Copy of press statement entitled "SMC '18 revenues hit P1T mark, beat 2020 target."										
March 29	Disclosure of the Company relating to the news article entitled "SMC completes requirements for Boracay bridge project proposal" posted in Inquirer.net on March 29, 2019.										
April 3	Disclosure of the Company relating to the news article entitled "SMC Global Power's P60-B bond issuance gets SEC nod" posted in The Manila Times (Online Edition) on April 3, 2019.										
May 7	We submit herewith the attached amended disclosure to include the Agenda of the Stockholders' Meeting of the Company to be held on June 11, 2019.										
May 9	We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, May 9, 2019, the Board of Directors of the Corporation declared cash dividends on the preferred shares of the Corporation, as follows:										

		<u>Class of Shares</u>	<u>Dividend Amount per share</u>
		Series “1” Preferred Shares	₱1.0565625
		Series “2” Preferred Shares - Subseries “B”	₱1.4296875
		Series “2” Preferred Shares - Subseries “C”	₱1.50
		Series “2” Preferred Shares - Subseries “D”	₱1.11433125
		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
		The dividend payment date is on July 5, 2019, to be paid out of the unrestricted retained earnings of the Corporation distributable as dividends as of March 31, 2019. Payment shall be made to the stockholders of record of the aforementioned preferred shares as of June 21, 2019. The books of the Corporation will be closed from June 24 to 28, 2019.	
May 9	Press Release – SMC Q1 revenues up 7% to P250.9 B as margin pressures persist.		
May 10	Please see attached PSE Form 4-2 (Acquisition or Disposition of shares of Another Corporation), which sets forth details of the transaction.		

May 10	<p>Disclosure of the Company relating to the following news articles:</p> <ol style="list-style-type: none"> 1. New article entitled “SMC wins bid for Europe’s biggest cement maker.” 2. New article entitled “SMC shares spike on rumors it won bidding for Holcim.”
May 10	Disclosure of the Company on the Notice of Trading Halt issued by the Philippine Stock Exchange on May 10, 2019.
May 14	We submit herewith the attached amended disclosure to include the change in the venue of the Stockholders’ Meeting of the Company to be held on June 11, 2019.
May 16	Please see attached PSE Form 4-32 - Reply to Exchange's Query on the acquisition of HLCM shares.
May 16	<p>Further to our disclosure on May 10, 2019, we advise that on May 16, 2019, the Company filed an application for exemptive relief with the Securities and Exchange Commission (“SEC”) relating to the conduct of the mandatory tender offer by First Stronghold Cement Industries Inc. (“FSCII”), a wholly-owned subsidiary of San Miguel Equity Investments Inc. (which, in turn, is a wholly-owned subsidiary of the Company), on the shares held by the public in Holcim Philippines Inc. (“HPI”).</p> <p>The Company requested the SEC to allow FSCII to launch, conduct and settle the mandatory tender offer only after: (i) the approval by the Philippine Competition Commission of the purchase by FSCII of 5,531,566,062 common shares representing 85.73% equity in HPI from various share sellers, and (ii) the completion of the post-closing purchase price adjustment in accordance with the agreement by the parties, which may result in an upward or downward adjustment in the purchase price.</p>
May 22	Disclosure of the Company relating to the news article entitled “San Miguel to submit proposal for P35-B water source project” posted in BusinessWorld (Online Edition) on May 22, 2019.
June 3	Disclosure of the Company relating to the news article entitled “SMC proposes NLEX-SLEX connector bus terminal” posted in Daily Tribune (Online Edition) on June 3, 2019.
June 6	<p>Disclosure of the Company with respect to the following articles:</p> <ol style="list-style-type: none"> 1) “Ang expects to spend P10 billion for bus terminal” posted in BusinessWorld (Online Edition) on June 6, 2019. 2) “SMC seeks new funding for coal-fired power plants” published in The Philippine Star on June 6, 2019.

June 10	Disclosure of the Company relating to the news article entitled "SMC to build 1,200-MW Batangas power project" posted in manilastandard.net on June 10, 2019.
June 11	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, June 11, 2019, the Board of Directors of the Corporation declared cash dividends on the common shares of the Corporation in the amount of P0.35 per common share.</p> <p>The dividend payment date is on July 30, 2019, to be paid out of the unrestricted retained earnings of the Corporation distributable as dividends as of May 31, 2019. Payment shall be made to the stockholders of record of the common shares as of July 5, 2019. The books of the Corporation will be closed from July 8 to 12, 2019.</p>
June 11	<p>We advise that, at the Annual Stockholders' Meeting of San Miguel Corporation (the "Corporation") held today, June 11, 2019, at the Isla Ballroom, Edsa Shangri-la Manila, 1 Garden Way, Ortigas Centre, Mandaluyong City, the following were approved:</p> <p>1. <u>Election of Directors</u></p> <p>The following directors were duly elected by the stockholders of the Corporation:</p> <p style="text-align: center;">Eduardo M. Cojuangco, Jr. Ramon S. Ang Leo S. Alvez Aurora T. Calderon Joselito D. Campos, Jr. Jose C. de Venecia, Jr. Menardo R. Jimenez Estelito P. Mendoza Alexander J. Poblador Thomas A. Tan Iñigo Zobel Ramon F. Villavicencio Reynaldo G. David – Independent Director Reynato S. Puno – Independent Director Margarito B. Teves – Independent Director</p> <p>2. <u>Appointment of External Auditors</u></p> <p>The stockholders of the Corporation approved the appointment of the auditing firm of R. G. Manabat & Co., CPAs as the External Auditor of the Corporation for the year 2019.</p>

June 11	<p>Please be informed that, at the Organizational Meeting of the Board of San Miguel Corporation (the “Corporation”) held on June 11, 2019, at the Isla Ballroom, Edsa Shangri-la Manila, 1 Garden Way, Ortigas Centre, Mandaluyong City, the following appointments were duly made:</p> <p>A. <u>By-law officers of the Corporation:</u></p> <table><tr><td>Eduardo M. Cojuangco, Jr</td><td>-</td><td>Chairman and Chief Executive Officer</td></tr><tr><td>Ramon S. Ang</td><td>-</td><td>Vice Chairman, President and Chief Operating Officer</td></tr><tr><td>Ferdinand K. Constantino</td><td>-</td><td>Chief Finance Officer-Treasurer</td></tr><tr><td>Virgilio S. Jacinto</td><td>-</td><td>Corporate Secretary and Compliance Officer</td></tr><tr><td>Mary Rose S. Tan</td><td>-</td><td>Assistant Corporate Secretary</td></tr><tr><td>Lorenzo G. Timbol</td><td>-</td><td>Assistant Corporate Secretary</td></tr></table> <p>B. <u>Lead Independent Director:</u> - Mr. Reynato S. Puno</p> <p>C. <u>Head- Internal Audit</u> - Mr. Ramon R. Bantigue</p> <p>D. <u>Members of the Board Committees:</u></p> <p>1. <u>Executive Committee</u></p> <table><tr><td>Eduardo M. Cojuangco, Jr.</td><td>-</td><td>Chairman</td></tr><tr><td>Ramon S. Ang</td><td>-</td><td>Member</td></tr><tr><td>Menardo R. Jimenez</td><td>-</td><td>Member</td></tr><tr><td>Estelito P. Mendoza</td><td>-</td><td>Member</td></tr><tr><td>Iñigo Zobel</td><td>-</td><td>Member</td></tr></table> <p>2. <u>Audit and Risk Oversight Committee</u></p> <table><tr><td>Margarito B. Teves</td><td>-</td><td>Chairman (Independent Director)</td></tr><tr><td>Leo S. Alvez</td><td>-</td><td>Member</td></tr><tr><td>Reynaldo G. David</td><td>-</td><td>Member (Independent Director)</td></tr><tr><td>Estelito P. Mendoza</td><td>-</td><td>Member</td></tr><tr><td>Reynato S. Puno</td><td>-</td><td>Member (Independent Director)</td></tr></table> <p>3. <u>Corporate Governance Committee</u></p> <table><tr><td>Reynato S. Puno</td><td>-</td><td>Chairman (Independent Director)</td></tr><tr><td>Aurora T. Calderon</td><td>-</td><td>Member</td></tr><tr><td>Reynaldo G. David</td><td>-</td><td>Member (Independent Director)</td></tr><tr><td>Menardo R. Jimenez</td><td>-</td><td>Member</td></tr><tr><td>Margarito B. Teves</td><td>-</td><td>Member (Independent Director)</td></tr></table>	Eduardo M. Cojuangco, Jr	-	Chairman and Chief Executive Officer	Ramon S. Ang	-	Vice Chairman, President and Chief Operating Officer	Ferdinand K. Constantino	-	Chief Finance Officer-Treasurer	Virgilio S. Jacinto	-	Corporate Secretary and Compliance Officer	Mary Rose S. Tan	-	Assistant Corporate Secretary	Lorenzo G. Timbol	-	Assistant Corporate Secretary	Eduardo M. Cojuangco, Jr.	-	Chairman	Ramon S. Ang	-	Member	Menardo R. Jimenez	-	Member	Estelito P. Mendoza	-	Member	Iñigo Zobel	-	Member	Margarito B. Teves	-	Chairman (Independent Director)	Leo S. Alvez	-	Member	Reynaldo G. David	-	Member (Independent Director)	Estelito P. Mendoza	-	Member	Reynato S. Puno	-	Member (Independent Director)	Reynato S. Puno	-	Chairman (Independent Director)	Aurora T. Calderon	-	Member	Reynaldo G. David	-	Member (Independent Director)	Menardo R. Jimenez	-	Member	Margarito B. Teves	-	Member (Independent Director)
Eduardo M. Cojuangco, Jr	-	Chairman and Chief Executive Officer																																																														
Ramon S. Ang	-	Vice Chairman, President and Chief Operating Officer																																																														
Ferdinand K. Constantino	-	Chief Finance Officer-Treasurer																																																														
Virgilio S. Jacinto	-	Corporate Secretary and Compliance Officer																																																														
Mary Rose S. Tan	-	Assistant Corporate Secretary																																																														
Lorenzo G. Timbol	-	Assistant Corporate Secretary																																																														
Eduardo M. Cojuangco, Jr.	-	Chairman																																																														
Ramon S. Ang	-	Member																																																														
Menardo R. Jimenez	-	Member																																																														
Estelito P. Mendoza	-	Member																																																														
Iñigo Zobel	-	Member																																																														
Margarito B. Teves	-	Chairman (Independent Director)																																																														
Leo S. Alvez	-	Member																																																														
Reynaldo G. David	-	Member (Independent Director)																																																														
Estelito P. Mendoza	-	Member																																																														
Reynato S. Puno	-	Member (Independent Director)																																																														
Reynato S. Puno	-	Chairman (Independent Director)																																																														
Aurora T. Calderon	-	Member																																																														
Reynaldo G. David	-	Member (Independent Director)																																																														
Menardo R. Jimenez	-	Member																																																														
Margarito B. Teves	-	Member (Independent Director)																																																														

	<p style="text-align: center;"><u>Related Party Transactions Committee</u></p> <p>Reynaldo G. David - Chairman (Independent Director)</p> <p>Joselito D. Campos, Jr. - Member</p> <p>Alexander J. Poblador - Member</p> <p>Reynato S. Puno - Member (Independent Director)</p> <p>Margarito B. Teves - Member (Independent Director)</p>
June 13	<p>We advise that the Company received late afternoon on June 11, 2019, a copy of SEC MSRD Order No. 16, issued by the Markets and Securities Regulation Department of the Securities and Exchange Commission (SEC), acknowledging receipt of payment by the Company of the amount of Php2,770,872.00, as a fine on the Company in connection with the filing of the Statement of Initial Beneficial Ownership and Statement of Changes in the Beneficial Ownership (SEC Form 23-A and B, respectively) under the Securities Regulation Code (SRC). A copy of the said Order is hereto attached.</p> <p>The Company paid the aforementioned fine after the finality of the decision of the Court of Appeals in <i>San Miguel Corporation v. Corporate Governance and Finance Department of the Securities and Exchange Commission</i>, where the Court of Appeals found that the fine imposed by the SEC was in excess of the limits prescribed under Section 54.1(ii) of the SRC.</p>
June 24	<p>Further to our disclosure on 26 February 2019, we advise the Exchange that San Miguel Corporation was informed by its external counsel, Poblador, Bautista & Reyes Law Offices, on 19 June 2019, that the latter received a copy of the Resolution, dated May 30, 2019 (Resolution), rendered by the Special Hearing Panel of the Securities and Exchange Commission in the case entitled “Josefina Multi-Ventures Corporation (JMVC) vs. San Miguel Corporation, San Miguel Food and Beverage, Inc., and Ginebra San Miguel Inc.” docketed as SEC Case No. 05-18-468, denying the Motion for Reconsideration filed by JMVC for lack of merit.</p>
June 27	<p>Disclosure of the Company relating to the news article entitled “SMC Global OKs sale of \$200m worth of securities” posted in manilastandard.net on June 26, 2019.</p>

June 27	Disclosure of the Company on the Issuance by SMC Global Power Holdings Corporation of Additional Senior Perpetual Capital Securities.																				
Aug. 8	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, August 8, 2019, the Board of Directors of the Corporation declared cash dividends on the preferred shares of the Corporation, as follows:</p> <table border="1"> <thead> <tr> <th><u>Class of Shares</u></th><th><u>Dividend Amount per share</u></th></tr> </thead> <tbody> <tr> <td>Series "1" Preferred Shares</td><td>₱1.0565625</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "B"</td><td>₱1.4296875</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "C"</td><td>₱1.50</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "D"</td><td>₱1.11433125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "E"</td><td>₱1.18603125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "F"</td><td>₱1.27635</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "G"</td><td>₱1.23361875</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "H"</td><td>₱1.1854125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "I"</td><td>₱1.18790625</td></tr> </tbody> </table> <p>The dividend payment date is on October 4, 2019, to be paid out of the unrestricted retained earnings of the Corporation distributable as dividends as of June 30, 2019. Payment shall be made to the stockholders of record of the aforementioned preferred shares as of September 20, 2019. The books of the Corporation will be closed from September 23 to 27, 2019.</p>	<u>Class of Shares</u>	<u>Dividend Amount per share</u>	Series "1" Preferred Shares	₱1.0565625	Series "2" Preferred Shares - Subseries "B"	₱1.4296875	Series "2" Preferred Shares - Subseries "C"	₱1.50	Series "2" Preferred Shares - Subseries "D"	₱1.11433125	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
<u>Class of Shares</u>	<u>Dividend Amount per share</u>																				
Series "1" Preferred Shares	₱1.0565625																				
Series "2" Preferred Shares - Subseries "B"	₱1.4296875																				
Series "2" Preferred Shares - Subseries "C"	₱1.50																				
Series "2" Preferred Shares - Subseries "D"	₱1.11433125																				
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																				
August 8	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, August 8, 2019, the Board of Directors of the Corporation approved: (i) the adoption of the material related party transactions policy, and (ii) the delegation to Management of the appointment of the external third party who will evaluate the material related party transactions of the Company, respectively.</p> <p>A copy of the Material Related Party Transactions Policy will be available at the website of the Company after it is submitted to the Securities and Exchange Commissions in compliance with Memorandum Circular No. 10, Series of 2019.</p>																				
August 8	Press Release entitled SMC posts revenues of P509.5 billion in H1.																				

August 15	Disclosure of the Company relating to the news articles published in various newspapers on August 15, 2019. In the attached news article entitled “SMC unit bags notice of award for NMIA project” posted in The Manila Times (Internet Edition) on August 15, 2019.
Aug. 16	<p>Please be advised that the Company, pursuant to the Shelf Registration of Php 60 Billion Peso-denominated Bonds with the Securities and Exchange Commission (SEC) on February 9, 2017, contemplates to issue the final tranche of said shelf-registration amounting to Php10 billion.</p> <p>In this regard, please be informed that the Company will conduct a Briefing for Qualified Institutional Buyers on August 22, 2019 at 4:00 p.m. (Manila Time), at the San Miguel Corporation Executive Dining Room, 2nd Floor, SMC-HOC Building, No. 40 San Miguel Avenue, Mandaluyong City, Metro Manila.</p> <p>The Company shall file with the SEC an Offer Supplement on or before August 22, 2019, a copy of which shall accordingly be made available at the website of the Company.</p>
Aug. 22	Disclosure of the Company relating to the news articles published in various newspapers on August 22, 2019. In the attached news article entitled “SMC Plans P10-B Bond Offering” posted in Inquirer.net on August 22, 2019.
Aug. 22	<p>The Company filed today with the Securities and Exchange Commission a registration statement together with a Preliminary Offer Supplement for the issuance of Php10 billion peso-denominated fixed rate bonds, to be issued out of the Php 60 billion shelf registered Peso bonds of the Company. The bond issuance has been given a rating of PRS Aaa by Philratings.</p> <p>A copy of the preliminary offer supplement may be viewed from the website of the Company at:</p> <p>https://www.sanmiguel.com.ph/files/reports/SMC_Preliminary_Offer_Supplement_(2282019)_AS_FILED.pdf</p>
Sept. 9	<p>Further to our disclosure to the Exchange dated, 10 May 2019, we advise that the Philippine Competition Commission (the “PCC”) has decided to move to a Phase 2 review of the proposed acquisition by First Stronghold Cement Industries Inc., a wholly-owned subsidiary of the Company, of 85.7% equity interest in Holcim Philippines, Inc. A copy of the press statement made by the PCC, dated September 6, 2019, regarding the opening of Phase 2 review is attached herewith. Likewise enclosed is a copy of the Notice to Proceed to Phase 2 previously issued by the PCC.</p> <p>We shall update the Exchange of developments relating to the transaction referred to herein.</p>

<p>Sept. 12</p>	<p>We advise that at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, September 12, 2019, the Board of Directors approved the declaration of cash dividends on the common shares at ₱0.35 per share.</p> <p>The cash dividends for the common shares are payable on October 31, 2019 to all stockholders of record of the common shares as of October 11, 2019. The stock and transfer books of the Corporation will be closed from October 14 to 18, 2019.</p> <p>The dividends shall be paid out of the unrestricted retained earnings of the Company available for distribution as dividends as of August 31, 2019.</p>
<p>Sept. 12</p>	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, September 12, 2019, the Board of Directors of the Corporation approved the redemption of the Ninety Million Four Hundred Twenty Eight Thousand Two Hundred (90,428,200) Series "2" Preferred Shares – Subseries B (the "SMC2B Preferred Shares") at a redemption price of ₱75.00 per share plus any unpaid cash dividends. The Company shall issue a Notice of Redemption by publication and by mail on September 16, 2019.</p> <p>The SMC2B Preferred Shares, upon redemption, are not considered retired and may be re-issued by the Corporation. The trading of the SMC2B will be suspended upon redemption and may only be tradeable upon the approval of the application of the Corporation for lifting of the trading suspension in the event the Corporation decides to re-issue the SMC2B Preferred Shares in the future, subject to compliance with the listing rules of the Exchange.</p>
<p>Sept. 12</p>	<p>San Miguel Corporation (the "Company") requests the Exchange for the suspension of trading of the Ninety Million Four Hundred Twenty Eight Thousand Two Hundred (90,428,200) SMC2B preferred shares from September 13, 2019 until September 23, 2019, the date of the redemption of the SMC2B preferred shares. The record date for the redemption of the SMC2B preferred shares is September 16, 2019.</p> <p>In order to Company the opportunity to process the payment of the proceeds from the redemption of the SMC2B preferred shares to the stockholders of record, the Company requests that the trading of SMC2B be suspended beginning September 13, 2019 until the redemption date on September 23, 2019.</p> <p>Please contact the following should you have any questions or require additional information relating to the request for trading suspension:</p> <div style="display: flex; justify-content: space-between; margin-top: 20px;"> <div> <p>Atty. Virgilio S. Jacinto vjacinto@sanmiguel.com.ph Atty. Mary Rose S. Tan mrtan@sanmiguel.com.ph Mr. Enrique LI. Yusingco eyusingco@sanmiguel.com.ph</p> </div> <div> <p>(02) 632-3144 (02) 632-2818 (02) 632-3450</p> </div> </div>

Sept. 12	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, September 12, 2019, the Board of Directors of the Corporation approved: (i) the purchase by the Corporation of 5% of San Miguel Yamamura Asia Corporation; (ii) the merger of San Miguel Yamamura Asia Corporation with San Miguel Yamamura Packaging Corporation ("SMYPC"), where SMYPC will be the surviving entity; and (iii) the 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. With the merger, all the packaging business of the Corporation together with its joint-venture partner, Nihon Yamamura Glass Company, Ltd., will be consolidated in SMYPC.</p>
Sept. 16	<p>We advise that the Company published today the Notice of the Redemption of the Ninety Million Four Hundred Twenty Eight Thousand Two Hundred (90,428,200) Series "2" Preferred Shares – Subseries B ("SMC2B Preferred Shares") of the Company. The redemption price is at ₱75.00 per share and shall be in accordance with the terms and conditions of the issuance of the SMC2B Preferred Shares. The redemption of the Shares was approved by the Board of Directors of the Company on September 12, 2019. Proceeds from the redemption of the SMC2B Preferred Shares shall be paid on September 23, 2019.</p> <p>As disclosed on August 8, 2019, the Board of Directors of the Company approved the payment of dividends to holders of the Preferred shares of the Company, including the Series 2 Preferred shares, as of September 20, 2019, which dividends shall be paid on October 4, 2019.</p>
Sept. 19	<p>Disclosures of the Company relating to the new articles published in various newspapers on September 19, 2019 involving San Miguel Corporation ("SMC"), including the following:</p> <ol style="list-style-type: none"> 1. "San Miguel looking to build an elevated expressway on EDSA" posted in BusinessWorld (Online Edition) on September 19, 2019. 2. "SMC gets green light for Bulacan airport, setting up equity fund" posted in BusinessMirror (Online Edition) on September 19, 2019.
Sept. 20	<p>Disclosure of the Company relating to the news article entitled "SMC to invest P50 billion for Pandacan bus, food terminal" posted in philstar.com on September 20, 2019.</p>
Sept. 20	<p>Disclosure of the Company on the SEC Permit to Sell dated September 19, 2019 for the Offering of P10 Billion worth of Fixed Rate Bonds under the P60 Billion Shelf Registration of San Miguel Corporation.</p>

Sept. 23	Disclosure of the Company relating to the news articles published in various newspapers on September 23, 2019. In the attached news article entitled "PSALM loses bid to junk case vs SMC power unit" posted in Manila Standard (Online Edition) on September 22, 2019.
Sept, 23	<p>Proposed Acquisition by First Stronghold Cement Industries, Inc. ("FSCII") of Holcim Philippines, Inc. ("HPI")</p> <p>Please find attached for your reference the notice to the minority shareholders of HPI of the intention by FSCII to conduct a tender offer of the shares held by the minority shareholders of HPI, subject to the approval by the Philippine Competition Commission of the proposed acquisition. The said notice was published today at the Philippine Star.</p>
Sept. 26	Disclosure of the Company relating to the news article entitled "SMC mulls unsolicited proposal for Panay-Guimaras bridge — Drilon" posted in BusinessWorld (Online Edition) on September 26, 2019.
Oct. 4	Please be advised that effective October 6, 2019, the new contact number of the Company is (632) 8 632-3000.
Oct. 10	Disclosure of the Company relating to the news article entitled "SMC power unit selling \$500m worth of securities" posted in Manila Standard (Online Edition) on October 9, 2019.
Nov. 5	<p>We advise that the Company shall conduct a consent solicitation (the "Consent Solicitation") to secure the approval of the holders of its U.S.\$800,000,0004.875% Notes Due 2023 (hereinafter referred to as the "Notes") to the proposed amendments to certain terms and conditions of the Notes and in the Trust Deed of the Notes (the "Proposed Amendments") in order to align the covenants and provisions of the Notes with the relevant covenants and provisions of: (i) the recently issued ₱10 billion retail bond of the Company in the Philippines, and (ii) the recently contracted U.S.\$1.75 billion dollar denominated syndicated term loan facility, respectively. The Notes are listed and traded on the Singapore Exchange Securities Trading Limited (the "SGX") and the results of the Consent Solicitation will be announced on the SGX.</p> <p>The period for the Consent Solicitation is scheduled from 05 November 2019 until 26 November 2019, and the meeting of the holders of the Notes to approve the Proposed Amendments is expected to be held on 28 November 2019. The Company may extend, amend, terminate and/or withdraw the Consent Solicitation at its sole discretion, subject to applicable laws.</p> <p>The Company shall likewise conduct a consent solicitation exercise in respect of its outstanding Philippine Peso bonds traded on the Philippine Dealing & Exchange Corp. (the "Philippine Consent Solicitation"). Details of the Philippine Consent Solicitation shall be further disclosed in due course.</p>

Nov. 7	We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, November 7, 2019, the Board of Directors of the Corporation approved to make an additional equity investment in Bank of Commerce ("BOC") amounting to Php5.5 billion in support of the application of BOC for an upgrade of its commercial banking license to a universal banking license.																		
Nov. 7	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, November 7, 2019, the Board of Directors of the Corporation declared cash dividends to be paid out of the unrestricted retained earnings of the Corporation as of September 30, 2019, distributable as dividends to all stockholders of record as of December 20, 2019 on the following shares of the Corporation to be paid on January 10, 2020, as follows:</p> <table border="1"> <thead> <tr> <th><u>Class of Shares</u></th><th><u>Dividend Amount per share</u></th></tr> </thead> <tbody> <tr> <td>Series "1" Preferred Shares</td><td>₱1.0565625</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "C"</td><td>₱1.50</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "D"</td><td>₱1.11433125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "E"</td><td>₱1.18603125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "F"</td><td>₱1.27635</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "G"</td><td>₱1.23361875</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "H"</td><td>₱1.1854125</td></tr> <tr> <td>Series "2" Preferred Shares - Subseries "I"</td><td>₱1.18790625</td></tr> </tbody> </table> <p>The books of the Corporation will be closed from December 23, 2019 to January 2, 2020.</p>	<u>Class of Shares</u>	<u>Dividend Amount per share</u>	Series "1" Preferred Shares	₱1.0565625	Series "2" Preferred Shares - Subseries "C"	₱1.50	Series "2" Preferred Shares - Subseries "D"	₱1.11433125	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
<u>Class of Shares</u>	<u>Dividend Amount per share</u>																		
Series "1" Preferred Shares	₱1.0565625																		
Series "2" Preferred Shares - Subseries "C"	₱1.50																		
Series "2" Preferred Shares - Subseries "D"	₱1.11433125																		
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																		
Nov. 7	Press statement of the Company entitled "SMC nine-month revenue hit P759 billion."																		
Nov. 12	<p>Further to our disclosure to the Exchange on 5 November 2019, we advise that San Miguel Corporation (the "Company") shall conduct a consent solicitation (the "Philippine Consent Solicitation") to secure the approval of the holders of the following debt securities to the proposed amendments to certain terms and conditions in the respective trust agreements of the following debt securities (hereinafter, referred to collectively as the "Debt Securities"), namely:</p> <ul style="list-style-type: none"> (i) 4.8243% Series A Bonds due 2022, 5.2840% Series B Bonds due 2024, 5.7613 Series C Bonds due 2027; (ii) 5.1923% Series D Bonds due 2022; (iii) 6.2500% Series E Bonds due 2023, 6.625% Series F Bonds due 2025, 7.1250% Series G Bonds due 2028; and (iv) 5.2500% Fixed Rate Notes due 2020 <p>The objective of the Philippine Consent Solicitation is to align the covenants and provisions of the Debt Securities with the relevant covenants and provisions of: (i) the recently issued ₱10 billion retail bond of the Company in the Philippines, and (ii) the recently contracted U.S.\$1.75 billion syndicated term loan facility, respectively. The Debt Securities are listed and traded on the Philippine Dealing & Exchange Corp. (the "PDEX") and the results of the Philippine Consent Solicitation will be announced on the PDEX.</p>																		

	<p>The record date for the Philippine Consent Solicitation shall be 5:00p.m. (Philippine Standard Time) on 14 November 2019 (the "Record Date"). Only holders of the Debt Securities on Record Date may participate in the Philippine Consent Solicitation. The period for the Philippine Consent Solicitation shall be from 22 November 2019 until 3:00p.m. (Philippine Standard Time) of 18 December 2019. Other relevant terms and conditions of the Philippine Consent Solicitation, including copies of the Consent Solicitation Statement and the Consent Form, will be made available to all holders of the Debt Securities as of the Record Date. For further information on the Philippine Consent Solicitation, holders of the Debt Securities may coordinate with their respective PDEX trading participant/s. The Company may extend, amend, terminate and/or withdraw the Philippine Consent Solicitation at its sole discretion, subject to applicable laws, in which case, the Company shall make further disclosures to the Exchange to announce any such change or actions.</p>
Nov. 18	<p>In accordance with the provisions of the Audit and Risk Oversight Committee Charter (the "Charter") of the Company adopted on August 13, 2012 and in compliance with SEC Memorandum Circular No. 4, Series of 2012 (the "Memorandum Circular"), we advise that the results of the self-assessment of the members of the Audit and Risk Oversight Committee for the year 2019, are as follows:</p> <p>Under the category "Quality and integrity of the Company's financial statements and financial reporting process," with the rating of 5 being the highest and 1 being the lowest, the average rating given by the five members of Audit and Risk Oversight Committee (the "Committee"), was 4.84. For this category, there were 5 questions based on the Charter.</p> <p>Under the category, "Effectiveness of the Company's internal control systems," the average rating given by the members of the Committee was 4.77. For this category, there were 16 questions based on the Charter.</p> <p>Under the category, "Independence and performance of its internal and external auditors," the average rating given by the members of the Committee was 4.80. For this category, there were 16 questions based on the Charter.</p> <p>Under the category, "Compliance by the Company with accounting standards, legal and regulatory requirements, including the Company's disclosure policies and procedures," the average rating given by the members of the Committee was 4.80. For this category, there were 3 questions based on the Charter.</p> <p>Under the category, "Evaluation of management's process to assess and manage the Company's enterprise risk issues," the average rating given by the members of the Committee was 4.80. For this category, there were 6 questions based on the Charter.</p>

Nov. 29	<p>Further to the disclosure of the Company, dated 05 November 2019, we advise that in a meeting of the holders of the U.S.\$800,000,000 4.875% Notes Due 2023 (hereinafter referred to as the "Notes" and each holder thereof, the "Noteholder") held on 28 November 2019, the Extraordinary Resolution as described in the Notice of Meeting and the Consent Solicitation Memorandum dated 05 November 2019, was duly passed by the requisite majority of Noteholders.</p> <p>With the passing of the Extraordinary Resolution on 28 November 2019, the Supplemental Trust Deed amending certain terms and conditions of the Notes and the Trust Deed has been executed as of today, 29 November 2019.</p>
Dec. 5	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, December 5, 2019, the Board of Directors of the Corporation approved the establishment of a medium term note programme amounting to US\$3 billion (the "Programme"), and the issuance of US\$500 million perpetual securities out of the Programme. The Programme and the initial issuance of perpetual securities will both be registered at the Singapore Exchange.</p> <p>The Programme will be available for a medium term and will allow the 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 pesos), whether considered debt or equity for accounting purposes. The establishment of the Programme will give the Company ready access to funding and will give the Company the flexibility to fund its contemplated investments and projects such as the MRT-7 construction, the Bulacan airport project, 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 Philippine Securities and Exchange Commission.</p> <p>The Company shall make further disclosures upon the establishment and registration of the Programme.</p>
Dec. 5	<p>We advise that, at the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held today, December 5, 2019, the Board of Directors of the Corporation approved the shelf registration with the Securities and Exchange Commission ("SEC") of Php60 billion short term commercial papers, and the initial issuance of such commercial papers amounting to Php15 billion with an oversubscription option of Php5 billion. The short term commercial papers shall be listed with the Philippine Dealing & Exchange Corporation.</p> <p>The Company shall make further disclosures upon the filing of the registration statement of the shelf registration and issuance of short term commercial papers with the SEC.</p>

Dec. 5	<p>In connection with the Regular Meeting of the Board of Directors of San Miguel Corporation (the "Corporation") held on December 5, 2019, we disclose that the Board declared cash dividends for Common Shares at P0.35 per share. The cash dividends are payable on January 24, 2020 to all common stockholders of record as of January 3, 2020. The stock and transfer books of the Corporation will be closed from January 6 to January 10, 2020.</p> <p>The dividends shall be paid out of the unrestricted retained earnings of the Company distributable as dividends as of September 30, 2019.</p>								
Dec. 16	<p>Disclosure of the Company relating to the news articles published in various newspaper entitled "SMC to pursue elevated EDSA proposal" posted in philstar.com on December 16, 2019.</p>								
Dec. 26	<p>We advise the Exchange that, as of December 18, 2019, 3:00 p.m., San Miguel Corporation has obtained the following consents in connection with the Consent Solicitation for its Fixed Rate Corporate Bonds and Corporate Notes held from November 22, 2019 to December 18, 2019, 3:00 p.m.</p> <table data-bbox="496 904 1062 1039"> <tbody> <tr> <td>Series A, B, C Bonds</td><td>56.19%</td></tr> <tr> <td>Series D Bonds</td><td>60.93%</td></tr> <tr> <td>Series E, F, G Bonds</td><td>55.80%</td></tr> <tr> <td>2-year Fixed-rate Corporate Notes</td><td>100%</td></tr> </tbody> </table> <p>The execution of the Supplemental Trust Agreements for the aforementioned Fixed Rate Corporate Bonds and Corporate Notes shall be on December 26, 2019.</p>	Series A, B, C Bonds	56.19%	Series D Bonds	60.93%	Series E, F, G Bonds	55.80%	2-year Fixed-rate Corporate Notes	100%
Series A, B, C Bonds	56.19%								
Series D Bonds	60.93%								
Series E, F, G Bonds	55.80%								
2-year Fixed-rate Corporate Notes	100%								

ANNEX “I”

SAN MIGUEL CORPORATION
2019 SUSTAINABILITY REPORT

San Miguel Corporation (SMC)

Contextual Information

Company Details	
Name of Organization	San Miguel Corporation (“SMC”, “SMC Group” or “Company”)
Location of Headquarters	40 San Miguel Avenue, Mandaluyong City 1550 Metro Manila, Philippines
Location of Operations	Please refer to Annex D: List Of Properties in SMC SEC17A
Report Boundary: Legal entities (e.g. subsidiaries) included in this report	<p>This report includes information from the local operations of the following companies and their respective subsidiaries, unless otherwise stated:</p> <ul style="list-style-type: none"> San Miguel Food and Beverage, Inc. (“SMFB”)* San Miguel Foods, Inc. (“SMFI”) San Miguel Brewery, Inc. (“SMB”)* Ginebra San Miguel, Inc. (“GSMI”)* San Miguel Yamamura Packaging Corp. (“SMYPC”) Petron Corporation (“Petron”)* SMC Global Power Holdings Corp. (“SMCGP”) San Miguel Holdings Corp. (“SMHC”) San Miguel Foundation, Inc. (“SMF”)
Business Model, including Primary Activities, Brands, Products, and Services	SMC is a diversified conglomerate that owns major businesses in the food and beverage, packaging, fuel and oil, energy, and infrastructure industries. Annex E: List of Products in the Company’s 2019 SEC 17A contains the list of associated brands.
Reporting Period	January 1, 2019 to December 31, 2019
Highest Ranking Person responsible for this report	<p>Maria Raquel Paula G. Lichauco Vice President, Head of SMC - Corporate Affairs Office</p> <p>For more information regarding the disclosures contained herein, send an email to smc.cao@sanmiguel.com.ph.</p>

*These subsidiaries are submitting their individual sustainability reports.

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.

The Sustainability Accounting Standards Board's (SASB) approach to materiality, as well as the GRI and the SEC's model, guided SMC's materiality process. SMC, the parent company, reviewed key disclosures from past annual reports and identified additional topics that have the most impact on the sustainability issues facing its subsidiaries. After arriving at an initial set of material topics, SMC then conducted interviews and consultations with pertinent group heads and technical teams. Guided by the presidents and management heads of its subsidiaries, a series of detailed mapping exercises were then held to further identify topics that are material to each of the Company's respective industries. The resulting set of material topics were then reassessed and filtered according to the structure of this reporting template.

As SMC continues to improve its processes, enhance its policies and develop responsive products and services, the Company's materiality process and topics shall be reviewed and updated accordingly. Impacts, risks, opportunities, and management approach required by the Securities and Exchange Commission are done on a topic level as such disclosures are often crosscutting between several metrics.

ECONOMIC

Economic Performance

Disclosure ¹	Amount (in millions)	Units
Direct economic value generated (revenue)	1,032,826	PhP
Direct economic value distributed:		
a. Operating costs (including payments to suppliers)	709,196	PhP
b. Employee wages and benefits	41,903	PhP
c. Dividends given to stockholders and interest payments to loan providers	89,485	PhP
d. Taxes given to government	142,566	PhP
e. Investments to community (e.g. donations, CSR)	943	PhP

¹Figures herein can be cross-checked with the Company's 2019 Audited Financial Statement, which includes all subsidiaries of the SMC Group.

Impacts & Risk

Until 2008, SMC's revenues came mostly from the food and beverage industry. SMC has since invested in other Philippine growth sectors, namely, fuel and oil, energy, and infrastructure. This diversification increased SMC's revenue streams and operating costs and allowed it to scale its impact from fast-moving-consumer goods to oil refining and marketing, power generation, and infrastructure development. In 2019, SMC's consolidated revenues was equivalent to approximately 5.5% of the Philippine's gross domestic product (GDP) based on Company revenues and data derived from reports published by the Philippine Statistics Authority. As such, the Company is exposed to certain risks especially in ventures that are completely different from their original core businesses.

One of SMC's key strategies is to invest in new businesses that will enable greater vertical integration in its supply chain. This strategy, however, poses a risk in the management and internal dynamic of the business, as time and resources are spread across a broader business scope. There may also be contingent risks and latent business liabilities which may not be evident prior to investment that may affect the Company's operations and profits.

Aside from risk arising from diversification and influence by SMC's top shareholders--Top Frontier Investment Holdings, Inc. and Privado Holdings Corp.--the Company also recognizes possible limitations in financing as another key risk. Certain subsidiaries currently have significant lease obligations and long-term debts. These may affect SMC's ability to attract additional financing, thereby limiting growth plans and flexibility in planning for changes in business and industry; these may also adversely affect flows for its people and operations. Other factors that may limit the availability of financing include limitations imposed by Philippine regulations with respect to a bank's exposure to a single borrower or related group of borrowers; existing debt covenants of the SMC Group, ability to service new debt, and public perception of the industries it is affiliated with.

Other risks that are specific to the industries are as follows:

Food and Beverage

- Price sensitive market
- Increase in Excise Tax
- Production difficulties causing shortage and difficulty meeting customer demand
- Outbreak of diseases
- Product liability claims
- Increased competition in the food and beverage industry
- Importation of lower-priced products
- Derivative and hedging transactions
- Internal and export operations
- Price monitoring by the government

Energy

- Increased competition in the Philippine power industry
- Suspension of issuance and renewal of Retail Electricity Supplier (RES) licenses
- Disruptions and fluctuations in fuel supply
- Reliance on Independent Power Producers ("IPPs") for the operation and maintenance of the Independent Power Producer Administrator ("IPPA") Power Plants
- Market limitations under the Electric Power Industry Reform Act (EPIRA)
- Development of greenfield power projects and expansion projects
- Adverse effect of Wholesale Electricity Spot Market (WESM) price fluctuations

- Non-renewal of or non-compliance with offtake agreements
- Operating capacities and other risks leading to network failures, equipment breakdowns, planned or unplanned outages
- Insurance coverage for generation plants
- No direct contractual and operational relationship with IPPA Power Plants
- Variations in hydrological conditions and irrigation requirements
- Dependence on the existence of transmission infrastructure
- Certain tax exemptions and tax incentives
- ERC Regulation of electricity rates of distribution utilities

Fuel and Oil

- Volatility in the price of crude oil and petroleum products
- Dependence on a small number of suppliers for a significant portion of its crude oil requirements in the Philippines
- Intense competition and cyclicity in global and regional refining capacities
- Disruption in operations or casualty loss at the refineries
- Compliance with safety, health, environmental, and zoning laws and regulations that may adversely affect financial conditions and business position due to litigations or proceedings
- Failure to respond quickly and effectively to product substitution or government-mandated product formulations
- Sensitive to the availability of capital. Significant capital expenditures, financing, and expansion of marketing and logistical support may be affected if Company is not able to generate needed cash flow to answer debt obligations
- Changes in applicable taxes, duties, and tariffs

Infrastructure

- Inherent risks in the completion of infrastructure business
- Enforceability of concession agreements
- Inability to secure concession agreements
- Inability to secure tariff increases
- Decrease in utilization
- Obtaining new concessions or projects

Packaging

- Handling of products may cause delay or decreased performance
- Competition and challenges in product development and production process

Inability to completely address these in a timely manner can have an adverse effect on its operations, which in turn may lead to reduction of manpower and/or service areas. Moreover, major business risks for the Company have been identified in its 2019 SEC Form 17-A, specifically pages 29 to 32, together with the risk management strategies adopted by the Management to address the same.

Management Approach to Identified Impacts and Risks

For diversification-related risks, SMC ensures the hiring and retention of key employees to allow successful integration, proper management, and alignment of the acquired companies to the SMC Group. SMC personnel undergo various training and mentoring programs to ensure that business is conducted in an ethical and sustainable manner, and is at par with the Company's standards. External experts are also engaged, whenever necessary, to complement manpower and boost productivity.

Financing risks are addressed by maintaining a solid capital base. This enables the SMC Group to pursue growth while increasing shareholder value and attracting more investors. The Company, with the guidance of its Management and Board of Directors (BOD), strategically reviews and monitors profit growth, dividend payments to shareholders, and maintains a healthy balance sheet with a balanced mix of debt and equity to maximize SMC's market value. Profiles for capital ratios are set in light of changes in the external environment and the risks underlying SMC's businesses, operations, and industries. The Company is not subject to externally imposed capital requirements.

SMC's Audit and Risk Oversight Committee regularly reviews risk management controls and procedures of the SMC Group, together with its respective Internal Audit, and assists the BOD in fulfilling its oversight responsibility of corporate governance processes.

To mitigate credit risks, the SMC Group is guided by creditworthy application of transaction limits and close risk monitoring. It is SMC Group's policy to enter into transactions with a wide diversity of counterparties to mitigate credit risk. The Company conducts regular internal control reviews to monitor the granting of credit and management of credit exposures.

The SMC Group, likewise, enters into commodity derivative transactions to reduce cost and optimize purchasing synergies within the Company and manages inventory levels of common materials.

Furthermore, each business unit is composed of reputable BOD officers and experienced management teams who are capable of immediately responding to any adverse event that may ensue. Regular support and direct lines of communication are provided and spearheaded by SMC - Parent Company management.

Opportunities and Management Approach

With the continuous growth of the financial value that SMC generates, there are more opportunities to increase shareholder value. These include but are not limited to the development and roll-out of new products and services, continuous improvement of its operations, increasing brand and product visibility, widening of supply, distribution, and retail networks, and exploring public-private partnerships.

Procurement Practices

Proportion of Spending on Local Suppliers

Disclosure	Quantity	Units
Percentage of total accredited local suppliers	88	%

The SMC Group supports local suppliers and prioritizes them in sourcing materials and services provided that quality and quantity requirements are met at competitive rates. SMC also provides capacity building opportunities to enable deserving local businesses to meet the Company's standards by increasing partnership with local merchants. Majority of raw materials in 2019 were however sourced from international suppliers due to the size of raw material and strict quality control requirements.

Impacts & Risk

It is imperative for the SMC Group to properly schedule and control the quality of materials, facilities, and services it procures. Any improper facilitation of supplier selection, negotiation, and delivery of appropriate goods and services may severely affect the Company's reputation and profits.

Substandard materials and fraudulent contractors will dampen operational efficiency and product quality. In turn, these may have repercussions on the market share of the various brands and profitability of the Company and may also affect the health and safety of its employees and customers.

In addition, failure to properly manage the procurement schedule and delays in the delivery of pertinent raw materials and equipment can result in unnecessary spending and inventory problems. Stock outs may lead to lost sales, reduced customer satisfaction, and if not immediately addressed, customer loyalty levels and relationship with business partners can be affected. Overstocks, on the other hand, may require additional spending on warehousing or disposal.

Management Approach to Identified Impacts and Risks

SMC believes the size and scale of its distribution network operations provide significant economies of scale and opportunities for synergy in production, research and development, distribution, procurement, and marketing. This is one of the benefits resulting from the vertical integration strategy of SMC, enabling the Company to leverage on costs and increase sales. The size and scale of SMC also gives it an advantage and bargaining power with suppliers.

As such, SMC has centralized its procurement through the SMC Corporate Procurement Group (CPG). The CPG streamlines the procurement of all SMC business units, thus decreasing the number of procedures in the procurement of goods and increasing the Company's efficiency. Guided by its Procurement Policy Manual, the CPG effectively manages supplier accreditation and capacity, cost-efficiency, timely delivery, and quality of materials, facilities and services.

The SMC Group also 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 Company, thus protecting raw material cost and preserving margins. Additionally, alternative sources of raw materials are used in the Company's operations to avoid and manage risks on unstable supply and higher costs.

In addition, the Company requires third party contractors to adhere to standards such as use of climate-controlled poultry and hog facilities. This measure minimizes the outbreak of disease, promotes food safety, and increases efficiency.

Opportunities and Management Approach

SMC will continue to invest in its people, processes, and technology through staff training, improved communication processes, and upgrading business tools. The Company, through the CPG, can explore synergies with local suppliers, where applicable and suitable for the business. By actively engaging with qualified third party providers who could suitably cater to the requirements of the business, SMC will be giving its suppliers an opportunity to improve their financial condition.

For bulk requirements, SMC can impose measures on third party contractors to constantly upgrade quality levels to make their operations more sustainable. Furthermore, the Company encourages third party contractors to hire local workers which will help improve the quality of life of the members of the community where its facilities are located.

Climate-related risks and opportunities

SMC recognizes the inevitable dynamics of sustainability and profitability, especially since the business revenue stream is heavily concentrated on manufacturing. Supply chain disruption due to weather conditions, interruption caused by natural disasters and potential infrastructure damages due to sea level rise, are considered major threats to the operations of the SMC Group.

For the food and beverage, infrastructure, and packaging businesses, immediate effects rests heavily on raw material scarcity and increase in raw materials and energy costs. The availability and accessibility of raw material inputs for said businesses may be affected by the extreme weather conditions caused by climate change, thus trickling down to the level of output of the business.

Natural disasters, exacerbated by climate change, may interrupt operations which have financial opportunity costs for the Company's facilities. To illustrate, a single incidence of interruption for the energy business may have opportunity costs of as much as PhP 205 million in lost revenues which translates to PhP 92 million in lost gross contribution. Hydroelectric plants are affected by prolonged dry seasons which may translate to estimated loss in revenues of PhP 157 million per year should plant generation reduction reach 10 percent.

Sea level has been rising due to global warming which can be a major threat to SMC's operations as some of its facilities, such as the Bataan refinery, select fuel terminals, and other facilities, are located along the shorelines. Sea level rise is now being considered in the planning stage of the Company's fuel terminal expansion and other infrastructure projects.

As this becomes a more evident concern, the SMC Group is clearly identifying and cautiously mitigating these climate change risks and impacts which are given priority and have been part of its strategy to ensure product availability and business continuity. Immediate actions include the consideration of proximity to supply chain markets, resilience of infrastructure to extreme weather conditions, and sea level rise (in relevant businesses) in the expansion and establishment of new facilities. Some facilities are also equipped with the best technology to minimize risks due to temperature fluctuations.

The Company, however, recognizes the need for further research and long-term solutions to potential financial and reputational impacts brought about by climate change. With this in mind, the Audit and Risk Oversight Committee, with the guidance of the BOD, is looking into developing its current Enterprise Risk Management structure to include the guidelines of the Task Force on Climate-related Financial Disclosures. In addition, SMC's relevant business units also have their own Environment Groups responsible for evaluating current and potential risks to their operations, apart from providing technical

assistance on the areas of pollution prevention and waste mitigation, waste treatment and disposal, site assessment and remediation, environmental management and engineering, and compliance and permitting requirements. There are also Health, Safety, and Environment Policies that affirm the Company's commitment to comply with regulatory requirements and protect and preserve the natural environment. SMC believes that mitigating climate change will deliver favorable impacts to its stakeholders and promote operational excellence to its businesses.

Furthermore, the SMC Group has aligned its own sustainability approach to the United Nations Sustainable Development Goals. In order to better understand the UN SDGs from the perspective of SMC's stakeholders, the Company has created three thematic clusters that capture the spirit of the SDGs in terms of SMC's long-held values (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 neighbor to the communities, stakeholders, customers and to the larger nation, and (3) to take steps to act as stewards for future generations.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training ¹	0	%
Percentage of employees that have received anti-corruption training	0	%

¹Annual training on good governance attended by SMC BOD and management may include anti-corruption discussions. There is no specific training for management or employees, that caters solely on the topic.

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	0	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

Impacts & Risks

Incidences of corruption and lack of transparency present serious legal, reputational, and economic risks and may diminish SMC's ability to deliver value to its stakeholders. Given the broad scope of SMC's businesses, corruption may occur due to oversight across the different business units.

SMC recognizes that even the smallest unethical act can threaten the efficiency of its operations. Dishonesty in the recruitment process or financial disclosures, and bribery in the supply chain, can take away resources that the SMC Group could use to deliver quality products and services in a timely and efficient manner. Not only will this result in financial losses due to possible sanctions and lawsuits and the cost of resolving the issue, corruption can also severely affect morale and productivity.

The cost of rectifying a corrupt incidence may even trickle down to the consumer. If left unchecked, corruption can damage the Company's reputation, which will drive away its customers, disappoint business partners and discourage investors. Corruption can affect market share and weaken business development and, for severe cases, the loss of business.

Management Approach to Identified Impacts and Risks

A strong anti-corruption culture is essential in maintaining the good reputation and operational excellence of all of SMC's business units. Guided by SMC's Corporate Governance Manual and Code of Conduct and Ethics, the SMC Group ensures that all employees, subcontractors, and suppliers uphold a high standard of professionalism and integrity. Every employee is mandated to use SMC resources, assets, and information solely for the purpose required by their respective office.

SMC officers are required to undergo an annual Corporate Governance training. This training covers SMC's good governance practices and policies, including its Whistle-Blowing Policy, Conflict of Interest Policy, Board Remuneration, and Receipt of Gift Policy.

Employees are encouraged to speak out and call the attention of management to any suspected wrongdoing within the organization. The Whistle-Blowing Policy protects the informer from any retribution or retaliation and empowers them to communicate directly to the SMC Audit Committee through the Office of the General Counsel for such concerns.

The SMC Group also acknowledges that it has the right to protect itself from possible conflicts of interest on the part of its employees, which might affect its financial and business viability. The Conflict of Interest Policy requires directors, officers, and employees to disclose the extent of their business interests. Failure to disclose fully is a ground for temporary disqualification.

In addition, SMC personnel are encouraged not to accept any gifts as they may be used to extract personal favors, especially in matters of hiring, awarding dealerships and contracts, and similar activities.

The SMC Group also guarantees strict compliance with all local laws pertaining to anti-corruption practices. Transactions with government counterparts and regulators are transparent, in order to foster trust to the communities we serve.

Opportunities and Management Approach

The Company will continue to implement governance policies to avoid risk of incidents of corruption. Groups formed within the management for internal audit will continue to be vigilant when business decisions are made. SMC will also try to increase the efforts to emphasize anti-corruption topics and discussions, mainly during the annual training on the Company's policy and good governance.

ENVIRONMENT

Resource Management

Energy Consumption within the Organization

Disclosure	Quantity	Units
Energy consumption (renewable sources) ¹	2,300,933.92	GJ
Energy consumption (gasoline) ²	370.92	GJ
Energy consumption (LPG) ³	2,051,619.56	GJ
Energy consumption (diesel) ⁴	7,872,400.02	GJ
Energy consumption (electricity) ⁵	1,764,557,168.60	kWh

¹Includes data from SMFB, Petron and SMCGP. A total of 105KW solar power installed and used in SMYPC's administrative building and engineering office. However, its actual generation and usage are yet to be determined.

²Includes data from Petron only.

³Includes data from SMYPC, Petron, and SMHC.

⁴Includes data from SMC parent company, SMFI, SMYPC, Petron, SMCGP and SMHC.

⁵Includes data from SMFB, SMYPC, Petron, SMCGP and SMHC.

Reduction of Energy Consumption

Disclosure ¹	Quantity	Units
Energy reduction (electricity)	7,925,578.10	kWh

¹This disclosure includes data from Petron and SMCGP. While the Company has been committed to reduce its energy consumption, data across all business units and their subsidiaries have yet to be consolidated.

Impacts & Risks

SMC's energy consumption is primarily through electricity. This powers the SMC Group's offices, manufacturing plants, construction projects, and other facilities. Although the Philippines, including SMC's energy business, is gradually increasing its clean energy capacity, the country still relies mostly on coal-fired power plants. While it is still the most affordable technology for energy production, coal power plants generate GHG emissions and air polluting substances that negatively affect people and the environment.

The growing demand for SMC's products and services will naturally result in increased energy consumption, which in turn will enlarge the Company's impacts on various environmental measures. In addition, the absence of an efficient energy management system may lead to higher operational costs, capacity overload affecting daily output, and possible power outages in SMC's facilities and fence-line communities with unstable energy capacities or weak distribution systems.

Management Approach to Identified Impacts and Risks

SMC has established Environmental Management Systems tailor-fitted to address the varying impacts to the Group's corporate offices and manufacturing facilities. SMC's head office leads by example by implementing a *Power Scheduling Program* that allows for the regulation of energy consumption of air conditioners, elevators, and lights.

Air conditioners with smaller chiller units are used for initial cooling of the building and run throughout the day. Main chillers with larger energy consumption are used only for a short amount of time, depending on the weather condition. In addition, three out of five elevator units are switched-off after office hours instead of operating them for 24 hours. As of 2019, light bulbs were converted from fluorescent to LED bulbs which translated to a 40 percent reduction in building lighting operation. Moreover, employees inside the head office are encouraged to take part in the Company's effort to reduce energy consumption by limiting their use of elevators when possible, and by switching off lights and electronics when not in use. Solar energy panels are also installed in some facilities to add renewable sources to the energy consumption mix.

SMC mandates its business units and their respective facilities to implement or move towards the implementation of an applicable Energy Management System. All local plants of SMYPC adhere to the globally recognized ISO 50001 certification. Aside from establishing their own environmental management systems, SMC facilities have clear targets in the form of KPIs for the reduction of electricity. Air emissions, effluents and solid waste volumes are also being monitored and addressed in these systems.

SMC's various subsidiaries develop engagement programs and conduct training on conservation measures for all employees. Specifically, for SMCGP, employees are given the opportunity to suggest ways to conserve energy through the *Work Improvement Suggestions by Employees* (WISE) and *Work Improvement Team* (WIT) programs.

Opportunities and Management Approach

SMC has invested in studies to develop a series of power consumption reduction schemes for each of its business units to be implemented in the upcoming years. These studies, which cover manufacturing facilities, are assessing the consumption volumes and patterns of each facility, including their corresponding efficiency scores and possible gaps and pain points.

In support of these studies, SMC's business units continue to monitor baseline data of its energy consumption to continuously reduce consumption across the Company. SMCGP's Limay Circulating Fluidized Bed (CFB) power plant, for instance, publishes its *Weekly Environment Watch*, which

documents consumption and emission rates for the information of all stakeholders. The SMC Group is currently exploring this opportunity to extend the initiative into a company-wide energy audit, which they foresee to result in a more holistic and transparent energy management policy and approach.

Water Consumption within the Organization

Disclosure ¹	Quantity	Units
Water consumption	29,662,744.74	Cubic meters
Water recycled and reused	960,178.01	Cubic meters

¹Measures to collect group-wide data for water withdrawal and discharge are being evaluated.

Impacts & Risks

As one of the biggest conglomerates in the country working in a broad array of industries, water is critical to SMC's manufacturing processes and operations. The instability of water supply in the Philippines, specifically in SMC's areas of operations, could lead to price hikes and supply shortages that will adversely affect its businesses. Some of SMC's business units, like the beverage business, sources water requirements from deep wells and water utility service providers. State 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 Company, its financial condition, results of operations, and prospects.

Management Approach to Identified Impacts and Risks

In 2017, SMC made the commitment to cut utility and domestic (non-scarce and non-product) water use across the entire San Miguel Group by 50 percent. The SMC Group aims to achieve this goal by 2025 through higher water management efficiency by:

- Eliminating wastage of water across operations through adaptation of stricter measures to improve the efficiency of the Company's water use, as well as utilize water-saving technology and implement conservation programs. All facilities and machineries are closely monitored for any signs of leakage and malfunction that would cause water wastage;
- Reusing and recycling more water. SMC optimizes their wastewater treatment facilities to further lessen its water footprint. Business units constantly try to make greater use of treated greywater for non-essential purposes. For example, treated wastewater effluents from San Miguel Brewery and San Miguel Global power plants are reused for utilities and gardening within the facilities; and
- Reducing the use of ground and surface water and protecting vital water sources. The Company continues to reduce the use of ground and surface water, protect these water sources, and empower communities to do the same. To reduce the use of surface water, the Company makes use of alternative water resources. For 2019, Petron alone utilized 1,602,690 cubic meters of desalinated seawater, 8,914 cubic meters of harvested rainwater and 403,477 cubic meters of recycled wastewater in its operations. Desalinated seawater from Petron's Bataan Refinery accounts for 25.2 percent of its fresh water requirement.

Opportunities and Management Approach

Because of the *Water for All initiative*, SMC has managed to save approximately 6.5 billion liters of water, representing a 21.3 percent reduction in its overall use in 2019. The SMC Group believes that it is well ahead of its goal to reduce consumption by 20 percent in 2020 and is confident that its targets will be achieved. Petron remains the biggest contributor with a 37.55 percent reduction in use, and SMCGP placing second with 37.31 percent. The Company realizes the importance of documenting practices and approaches of leading business units, for the benefit of other businesses making their own strategies, as well as for preparing company-wide implementation of initiatives. Regular monitoring of this program was published in one of the issues of SMC's internal newsletter, *Kaunlaran*, encouraging employees to strengthen efforts to increase water use efficiency in workplace operations and individual activities.

Materials Used by the Organization

Disclosure	Quantity	Units
Materials used by weight or volume ¹		
renewable	319,833,734.67	kg
	187,298,418.00	L
non-renewable	5,131,799,235,.79	kg
	5,703,377,540.00	L
Percentage of recycled input materials used to manufacture the organization's primary products and services ²	8	%
Percentage of reused input materials used to manufacture the organization's primary products and services (second-hand bottles) ³	56	%

¹The weight data includes inputs from SMFB and SMCGP while additional data recorded in volume is from Petron.

²Percentage is from the bottom ash recycling capability of SMCGP.

³Includes data from reused second-hand bottles from GSMI.

Impacts & Risks

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. Aside from said risks, each material input carries risks intrinsic to the economic, social, and environmental aspects of producing and delivering them.

Each business then faces impacts and risks adjacent to their primary product and service inputs:

- Food and Beverage Business: livestock, sugarcane molasses, anhydrous milk fat, wheat, and soybean meal, corn
- Packaging Business: glass, aluminum, paper and composites
- Energy Business: coal
- Fuel Business: crude oil
- Infrastructure Business: asphalt, concrete, steel, wood, clay

The Company 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 to beverage alcohol, thereby causing higher demand and cost. Movements in the global supply of raw materials may affect cost and prices, affecting the Company's ability to purchase materials for needed output.

It is key to the success of the Company's operations that it acquires high quality raw materials and uses efficient processes in production. Using substandard materials will produce substandard products for its customers, whereas if processes are inefficient, these will result in low yields leading to wasted raw materials. With the large quantities needed as input for the Company's products, wastage of these materials due to process inefficiency may impact the local (Philippine or Southeast Asia) supply of mentioned materials.

Management Approach to Identified Impacts and Risks

The SMC Group manages materials consumption through efficient processing systems and inventory management within plant operations.

Operational processes are engineered to be efficient, fully utilizing input materials with minimal wastage. Businesses are equipped with the latest technology managed by highly skilled teams who ensure processes are constantly efficient and regularly monitored. SMC also invests in research and development of better materials and more efficient processes that could lessen the overall impact of the Company's overall consumption. To further minimize wastage, materials leftover from production processes are assessed for viability. If materials are deemed viable and will not compromise the batch, they will be re-used in production.

Some of the material by-products that are recycled and reused as inputs are as follows:

- Food and Beverage Business: offal, bakery meal, wheat germ, pollard and bran, spent grain and brewer's yeast, animal by-products
- Packaging Business: PET regrinds, scrap crates, glass bottles, PP caps, poly bags, plastic bags, HDPE, LDPE, scrap paper, cullet
- Energy Business: bottom ash

SMC's inventory management entails diligent monitoring of materials, ensuring the delivery of suppliers and contingency suppliers, and use of alternative primary materials. Moreover, SMC is not dependent on one or a limited number of suppliers for its primary raw materials and essential supplies requirements.

The SMC CPG along with the Business Procurement Groups in the respective business divisions secure a number of alternative accredited suppliers to streamline contingent processes should a shortage or failure to deliver occurs. They implement stringent supplier accreditation policies, ensuring partnerships with the right suppliers.

Alternative sources of raw materials are also used in the Company's operations to manage risks related to supply and cost stability. For example, the food division of SMFB has integrated cassava in its primary raw materials as a substitute for corn, which is a vital ingredient in the production of animal feeds. Cassava is also processed as starch milk in one of the facilities of the spirits division, as an alternative material in the production of alcohol.

Opportunities and Management Approach

Through vertical integration, SMC combines strengths and finds the complementary capabilities of its diverse businesses to maximize the value of materials. For example, the packaging business supplies the food and beverage businesses providing a significant part of the supply chain. This dynamic coordination can be further developed by examining processes and materials and identifying all material derivatives and by-products which may be distributed to other business units' supply chain as inputs, thereby maximizing each raw material.

Ecosystems and Biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	5	#
Habitats protected or restored	116	ha
International Union for Conservation of Nature (IUCN) Red List species and national conservation list species with habitats in areas affected by operations	2	species

Impacts & Risks

Given the scale of its operations, SMC holds its business units responsible for assessing and decreasing impacts to surrounding ecosystems and biodiversity. These impacts include loss of trees due to clearing activities for construction natural systems being interrupted because of operations; loss of biodiversity due to noise pollution, depletion of groundwater resources, and degradation of water systems due to wastewater effluents. These impacts to biodiversity and ecosystems not only have legal repercussions but have consequences to local communities as well.

Across SMC's operations, there are five high biodiversity areas that are adjacent to its business operations:

- **Angat Watershed Area (Protected as per Proclamation no. 391, s.1968).** The Angat Watershed Reservation, proclaimed protected since 1968, is managed by the National Power Corporation. Apart from its rich forests and water reservoir, it also houses 165 terrestrial flora species belonging to 94 genera and 64 families, as well as 51 terrestrial vertebrate species. SMCGP's Angat Hydroelectric Power plant has the least pollution impact across the Company's portfolio but also has its corresponding environmental impacts. The hydropower facilities may disrupt the natural flow of water and natural habitats in the dam area.
- **Masinloc Oyon Bay Marine Reserve (Protected as per Proclamation no. 231, s. 1993).** The Masinloc Power Plant is within this multiple-use zone. Coal handling, wastewater treatment, cooling water, and ash handling activities are among the operations that are near or inside the marine reserve. With this said, activities may impact marine resources in the reserve should levels of byproducts surpass the threshold.
- **New Argao Fish Sanctuary.** Located 3 km South of the Malita Power Plant location, this fish sanctuary has been protected since 2003.
- **Guimaras Strait.** Located between Panay and Negros, Guimaras Strait is a highly productive fishing ground that is also the home to the critically endangered Irrawaddy dolphins (*Orcaella brevirostris*) and vulnerable sea cow (*Dugong dugon*). Discharges from GSMI's distilling plant, if not managed properly, may contribute to the deterioration of the water quality of the Strait and adversely affect its biodiversity.
- **Sarangani Bay Protected Seascape.** A proclaimed National Integrated Protected Area System (NIPAS) by virtue of Presidential Proclamation No. 756 issued in 1996. It is also classified as Category V Protected Area by the International Union for Conservation of Nature (IUCN).

Management Approach to Identified Impacts and Risks

SMC is fully aware of its role in the mitigation, restoration, and conservation of the areas wherein their operations are located. The Company believes that conservation of the environment is a crucial aspect of achieving excellence in operational efficiency. This entails closely monitoring facility effluents and emissions and obtaining environmental management certifications as a standard for mitigating impact.

The Company's management ensures that facilities across all business units are compliant to the standards set by the Department of Environment and Natural Resources (DENR) and are equipped with assessment tools for ecological monitoring reports. Moreover, impact areas are addressed as follows:

- **Angat Hydroelectric Power Plant.** SMCGP and K-Water initiated the *Angat Dam and Dykes Strengthening Project* (ADDSP) as a precautionary measure to preserve and protect this crucial source of water for Metro Manila, as part of its commitment to the operators of the Angat Dam. This Php 1.08 billion initiative included structural improvements to the dam as well as the main and secondary dykes. This major undertaking ensures the structural integrity of the Angat Dam.
- **Masinloc Power Plant.** The Masinloc power plant implements a ridge-to-reef program that includes maintenance of plantation on watersheds leading to the bar reserve, seagrass enhancement planting, mangrove planting, and coral transplantation in artificial reefs. In 2018, SMCGP was able to rehabilitate 500 sqm. of seabed through 10 artificial reefs in the area.
- **Malita Power Plant.** SMCGP, through its subsidiary, partnered with the local government to adopt a kilometer of the Malita River in an effort to protect the surrounding body of water and its aquatic life. Cleanups and monitoring activities have resulted in the increase in dissolved

oxygen levels to greater than 7mg/L which aids organism proliferation and survival. SMCGP conducted an underwater resource assessment and observed an increase in the species of fish along newly installed Unit 3 Intake pipes. In a bid to step up their monitoring systems, SMCGP established a Butterfly Sanctuary for the butterflies to serve as bio indicators.

- **Distileria Bago, Inc. Plant.** All discharges from GSMI's distilling plant are compliant to regulatory standards, which reduces, if not eliminates, possible negative impacts to the environment. Adjacent to the operational site, a mangrove reforestation area has been adopted and the survival rate of planted mangroves is at 96%. The area also reduces the risk of flooding, soil erosion, and storm surges and serves as habitat to numerous animals. Regular coastal and estero clean-ups and shoreline and mangrove monitoring are done with local government units and nearby communities.
- **Petron Bawing Terminal.** Petron prepared a 10-year rehabilitation plan for 2020 – 2030 that covers 91,737 sq m of foreshore area along the Sarangani Bay Protected Seascape. The plan addresses water quality management, habitat protection and alternative livelihood. This rehabilitation plan will be reviewed and updated every decade, or at a shorter duration if warranted, to account for developments in the area and changes in regulations.

SMC, through its subsidiaries, has also initiated company-wide initiatives in reforestation, carbon sink programs, and coastal clean-ups. This includes SMCGP's project called "747 Program ", which aims to plant seven million trees over the next seven years through a combination of reforestation initiatives, protected forest reserves, biochar production, and mangrove rehabilitation. These are conducted in coordination with the LGU, DENR, PENRO and/or MENRO.

Puno ng Buhay Program, a complementary endeavor of SMB, is a forest restoration and mangrove conservation and restoration partnership with the LGU and DENR. Host communities are given technical skills training on mangrove management. This program has also provided residents of coastal areas an additional source of livelihood.

Opportunities and Management Approach

SMC continuously seeks ways to improve and find opportunities within its operations in order to minimize impacts on neighboring ecosystems. Strengthened by the plans and capabilities of SMC's infrastructure arm, the Company can conduct more thorough assessment for upcoming development projects. From the planning stage to the completion of greenfield projects, the Company also has the opportunity to ensure that installations and new technologies are suitable to the natural resources and existing ecosystem, and also induce the improvement and proliferation of biodiversity.

Environmental Impact Management

Air Emissions

GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions ¹	7,811,452.04	Tonnes CO ₂ e
Energy indirect (Scope 2) GHG Emissions ²	396,589.21	Tonnes CO ₂ e

¹Includes data from SMFB, SMYPC, SMCGP, Petron and SMHC.

²Includes data from GSMI, SMYPC, SMCGP and Petron.

Air Pollutants

Disclosure	Quantity	Units
NO _x ¹	1,808,572.38	kg
SO _x ²	14,519,816.92	kg
Persistent organic pollutants (POPs) ²	0	kg
Volatile organic compounds (VOCs) ²	18,070.00	kg
Particulate matter (PM) ²	105,616.16	kg

¹Includes data from SMC parent company, SMCGP, Petron and SMHC.

²Includes data from SMCGP and Petron.

Impacts & Risks

The primary sources of GHG emissions from SMC's operations are: power plants, the SMC Group's combined electricity consumption, and the fuel refining and storage business facilities. Various steps involved in the processing of materials to produce the Company's products emit pollutants and impact air quality. Coal-fired power plants are one of the biggest industrial sources of mercury. Fuel mixes and formulas may emit high concentrations of CO and NO_x. All these deteriorate air quality within the vicinity of sites of operations and significantly contribute to climate change. Other than the negative consequent effects of climate change, emissions may be a health and safety risk to employees, customers, and nearby communities as concentrations of air pollutants may cause respiratory ailments.

Management Approach to Identified Impacts and Risks

SMC manages air emissions by closely monitoring by-product levels, making sure that reduction target levels are met. This is in accordance with EMS systems in place in different facilities, as well as environmental compliance standards (SO_x, NO_x, PM, CO and opacity) set by DENR and the World Bank (WB).

The business units have different strategies in place to achieve this. The energy business implements bike health/emission programs, fleet management strategies, technology integration for business tasks, and a weekly update on emission data. Petron ensured that its 29 terminals are certified with EMS ISO 14001, ensuring that their system is capable of emission reductions, supplemented with a terminal Eco-watch program. SMYPC's Manila Plastics Plant and SMY Glass Plant also conform to the standard and have third party certification. Meanwhile, subsidiaries of the food and beverage business opt to either apply for a similar certification or include air quality in their regular audits.

These efforts are complemented by SMC's investment on instruments to measure and reduce emissions such as electrostatic precipitators which is a device that abates air pollution generation in certain processes.

Opportunities and Management Approach

The Company believes that research and development play vital roles in maintaining its position and market leadership, and consequently setting the mark for cleaner and more efficient processes. The huge challenges of climate change and the urgent need for global emissions reductions have paved the way for advancements in green technology, which include certain processes and materials that manage air emissions and also streamline operation. SMC is continuously studying these developments in order to find ways to integrate these new practices and technologies to increase efficiency. As an example, SMCGP plans to explore the use of catalytic reduction technology to further improve NOx emissions. This advanced active emission control technology injects reductant agents to capture and remove NOx emissions. SMC is also looking into increasing air pollutant monitoring across all business units, especially those with high impact operations.

Solid and Hazardous Wastes

Solid Waste

Disclosure	Quantity	Units
Total solid waste generated ¹	497,513,617.52	kg
Food waste diverted	2,069	kg
Reusable ²	0	kg
Recyclable ³	709,728	kg
Composted ²	1,562,281.00	kg
Incinerated	0	kg
Residuals/Landfilled ²	378,313,486.32	kg

¹Includes data from SMC parent company, SMCGP, Petron, and SMHC.

²Includes disclosure from SMCGP and Petron.

³Includes disclosure from SMC parent company, SMCGP and Petron.

Impacts & Risks

SMC's manufacturing facilities and corporate offices generate various types of solid waste that may result in negative environmental and cost impacts if not managed properly. Clearly the inefficient management of waste poses health and environmental risks. The poor handling of solid waste may also affect the sanitation of its various sites, which is a crucial aspect in manufacturing quality products. Additional costs may also lead to regulatory ramifications, such as penalties and the need to replace contaminated products.

Food waste is a type of solid waste that is significant to SMC's operations as food and beverage take up a huge part of its core business. In the process of meeting varying demands for products, the food and beverage lines may result in surpluses and packaging defects leading to wastage. Products that are not

sold within their prescribed shelf life also turn into food waste. Food waste *“refers to discarding or alternative (non-food) use of food that is safe and nutritious for human consumption along the entire food supply chain, from primary production to end household consumer level”*.

The Company delegates the task of transporting solid wastes to appropriate landfills relative to site locations to DENR accredited waste haulers. SMC recognizes the vital role in making sure wastes are properly collected, sorted and stored not only before it leaves the Company’s plants but also if it reaches the appropriate disposal areas. SMC’s current partnership does not allow them to fully monitor solid wastes after they are collected from the sites, thereby potentially contributing to land or marine pollution. If solid wastes are not properly managed, it can cause the proliferation of pests and illnesses, as well as potentially leaching into the local groundwater table.

Management Approach to Identified Impacts and Risks

SMC implements a comprehensive solid waste management program to protect public health and the environment. The Company fully complies with the Ecological Solid Waste Management Act (RA 9003) and all statutes that cover the ambit of SMC’s operations.

SMC’s facilities pursue various efforts to reduce solid wastes, including:

- Collection of production scraps for recycling
- Utilization of animal waste for biomass energy
- Recovery of spent grain to serve as additives in animal feeds
- Proper waste segregation
- Banning single use plastics
- Returning damaged or substandard materials to suppliers
- Selling of scrap metals to 3rd parties
- Recycling of plastics
- Recycling and reusing paper

In addition to these, the Company strives to increase its value to customers through developing products and initiatives that integrate the sustainability mindset such as the returnable glass bottle system for the beer business, and the use of recyclable products for the packaging business.

SMC takes a further step in reducing the country’s food waste by redirecting possible wastages to food banks before they expire. Processed meats and products that are not able to meet distribution standards but are still of quality are donated to its adopted indigent community in Tondo, Manila. More than a feeding program initiative, this program aims to eradicate poverty through capacity-building initiatives for the said community.

Opportunities and Management Approach

The packaging business has the technology and research capacity to test for ways of recycling packaging materials. This presents an opportunity in developing programs specific to the Company's needs in recycling and waste reduction. A specific division or business task force may be created to fully centralize the collection and management of these solid wastes. For example, collected solid wastes can be recycled or used as biomass for fuel in the refining process; while collected solid wastes from infrastructure business can be recycled and used for other projects. There is also a potential in integrating practices from international operations and seeking counsel from globally renowned partners to develop efficient solid waste management systems.

Hazardous Waste

Disclosure	Quantity	Units
Total weight of hazardous waste generated ¹	4,777,843.15	kg
	45,686.00	L
Total weight of hazardous waste transported ²	9,830,844.09	kg

¹Data in weight is the consolidated hazardous wastes of parent company and all business units whereas additional data recorded in volume is from SMFI.

²Includes data from SMC Head Office, SMCGP, and Petron.

Impacts & Risk

SMC's business lines produce a large volume of hazardous wastes. Such wastes that come from the processes in the Company operations are:

- busted fluorescent lamps,
- ink cartridges,
- batteries,
- oil with water and dirty oil,
- kitchen grease,
- contaminated rags or pads,
- ACL paints with lead,
- carbon deposits from boiler, and
- solvent base pigment.

All these pose serious risks that may compromise the health and safety of employees working in the facilities if not properly stored, treated, and transported. Soil, surface water, and groundwater pollution due to ineffective containment, storage, and/or disposal of hazardous wastes negatively impact public health and the environment. In addition, improper solid and hazardous waste management could have regulatory ramifications.

Management Approach to Identified Impacts and Risks

SMC's business units have their own hazardous waste storage facilities in strategic locations away from foot traffic and direct sunlight. Emergency equipment and procedures are also in place to neutralize and contain hazardous materials in the event that a spill occurs. Some machines also have capabilities to recycle hazardous waste such as the Bottom Ash Recycling Systems of the energy business' boilers. The bottom ash will be sieved within the system and will be reused as bed material for the furnace or silica sand replacement. Used vegetable oil and dried sludge from SMFB's operations are also recycled.

SMC is in coordination with several of the country's top waste treaters, and has engaged their services for the transport, treatment, and disposal of hazardous wastes. The Company also negotiates with its suppliers regarding the collection of broken light bulbs, old car and generator batteries, printer toners, and other wastes that need special handling. Aside from these practices, the business units have also set initiatives to reduce hazardous wastes. Among these are Petron's *Terminal Ecowatch Program*, which focuses on aligning terminal facilities and staff to a Toxic and Hazardous Waste Management system, and the *Balik Bateriya Program* implemented across different SMC businesses, which involves the collection and selling of used lead acid batteries to recyclers to generate funds for Corporate Social Responsibility (CSR) Projects.

Opportunities and Management Approach

SMC is continuously working towards the improvement of its waste management systems. The Company is looking into the possibility of integrating its own hazardous waste recycling or neutralization facility within terminals, refineries, power plants, and manufacturing plants.

Effluents

Disclosure	Quantity	Units
Total volume of water discharges ¹	95,780,534.97	Cubic meters

¹Includes data from SMFB, Petron and SMHC. Data from other business units have yet to be collected

Impacts & Risk

SMC's production facilities may involve a significant number of by-products, which includes effluents. The Company recognizes that processes may have an impact on water bodies surrounding various locations, which may possibly contribute to water pollution, especially if discharges do not meet DENR effluent standards. Sewage discharges or liquid wastes may contain micro plastics or harmful chemicals detrimental to nearby water systems if they fail to undergo careful treatment and management.

Management Approach to Identified Impacts and Risks

SMC ensures that its facilities have efficient wastewater treatment systems, manned by technical experts to monitor and regulate effluents, and that these systems are at par with industry standards by aiming to achieve and go beyond standards set by the EMS ISO 14001 certifications. This involves monitoring the properties and quality of effluents, as well as marine life where it is discharged, to fully understand the impact. In one of the outputs of SMCGP power plants' Environmental Monitoring Plan, there was a significant growth of mollusks since the start of its operations, which consequently helped the community as their source of livelihood.

Opportunities and Management Approach

The *Water for All* initiative was effective in reducing SMC's water consumption, as well as engaging employees to contribute to the Company's targets toward sustainability. This may be an opportunity to tackle effluents management as an integral part of going towards a holistic water management system. With this in place, the Company is moving toward examining baseline data on its effluents and set targets to achieve a minimum-to-zero discharge operations, through a carefully-planned water recycling scheme whose implementation tailor-fit to SMC's business processes.

Environmental Compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	0	PhP
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	0	#
No. of cases resolved through dispute resolution mechanism	N/A	#

More than regulatory compliance, company-wide standards for operational excellence considers environmental aspects. As a baseline to go beyond standards, the SMC Group aims to receive certifications from both locally and internationally renowned institutions that ensure systems are in place for efficient processes in the operations.

Certification	Number of applicable operational sites				
	SMFB	SMYPC	Petron	SMCGP	SMHC
ISO 50001:2011 Energy Management System		All		2	
ISO 90001:2015 Quality Management	6			2	
ISO 14001:2015 Environmental	1	2	29	3	

Management System ¹					
ISO 55001: 2014 Asset Management System				2	
(2) IMS Certifications for EnMS				All	
OHSAS 18001 Occupational Health and Safety	All	All	All	All	All

¹SMB, under the beverage division, have their own environmental audit approach which merits a “state of certifiability” of the ISOs including 14001 which covers Environment Management System and is covered in Multi-Functional Audit and Management System Audit conducted on a regular basis.

Impacts & Risk

Ensuring that the Company’s facilities are compliant with all pertinent environmental laws and regulations helps protect the environment and natural resources, as well as the continuity of business operations. The DENR-EMB, LGUs, and other authorities hold the authority to stop SMC’s operations whenever they fail to comply with standards and secure the relevant permits and controls.

The ability to operate can be revoked in the event that the SMC Group is not able to renew necessary licenses, permits, and other authorizations, as necessary. This applies to daily operations, plant maintenance, production of materials, and corporate head offices. Other than the cost of penalties, there may be a significant amount of loss if operations are disrupted for a day or more. Any form of non-compliance can also expose the Company to both safety and reputational risks.

Management Approach to Identified Impacts and Risks

In order to maintain a high level of compliance to environmental laws and regulations, SMC ingrains a strong culture of compliance among employees, ensuring that all requirements, permits, and approvals, are secured in a timely manner.

To help achieve full regulatory compliance, SMC’s team of highly-qualified Pollution Control Officers are compliant with the requisite PCO training. PCOs monitor their facilities’ compliance with the following laws and regulations:

- RA 8749 – Clean Water Act
- RA 9275 – Clean Air Act
- RA 9003 – Solid Waste Management Act
- RA 6969 – Hazardous Wastes Management Act
- RA 7586 – NIPAS Act
- Nuclear Waste Control Act of 1990
- Ecological Solid Waste Act of 2000

SMC’s environmental compliance is not limited to the above laws. Full compliance to all of the relevant laws of the Philippine Government are ensured and are applied to Company operations. As an extension

of environmental compliance, SMC's employees play an active role in the environmental audits of operational facilities. This shows the communities near the operations the transparency of the Company and their willingness to work with experts to further improve service.

To further support SMC's compliance culture, the Company implements its *Terminal Ecowatch Program*, a program for terminals which assesses the following critical environmental concerns:

- Wastewater Quality Management
- Air Quality Management
- Toxic and Hazardous Waste Management
- Environmental Impact Assessment
- Environmental Management Systems

Facilities are also certified under EMS ISO 14001 standards, guaranteeing environmental compliance and performance. More than regulatory compliance, SMC adopts internationally-recognized standards to ensure that its plants are operating in safe and efficient conditions. The Company has sought out accreditations from both locally- and internationally-renowned institutions to attest to their dedication to operational excellence.

Opportunities and Management Approach

Together with the Internal Audit, Audit and Risk Committee, and Monitoring Teams per business unit, SMC will strive to make sure that all business activities remain compliant to all pertinent regulations. Synergizing its environmental systems and centralized IT system, SMC can streamline the process of obtaining data relevant to compliant documents. The Company is also looking into training most, if not all departments involved regarding these regulations. The Company will seek consultations from outside organizations for a check-and-balance and proper audit of prepared compliance documents.

SOCIAL

Employee Management

Employee Hiring and Benefits

Employee data

Disclosure	Quantity	Units
Total number of employees	44,024	#
a. Number of female employees	13,647	#
b. Number of male employees	30,377	#
Attrition rate	10.03	rate
Ratio of lowest paid employee against minimum wage	1.02:1	ratio

Employee benefits

List of Benefits ¹	Y/N
SSS	Y
PhilHealth	Y
Pag-ibig	Y
Parental leaves	Y
Vacation leaves	Y
Sick leaves	Y
Medical benefits (aside from PhilHealth)	Y
Housing assistance (aside from Pag-ibig)	Y
Retirement fund (aside from SSS)	Y
Further education support	Y
Company stock options	N
Telecommuting	Y
Flexible-working Hours	Y
Others	Y

¹Government mandated benefits are given to all SMC's regular employees. Telecommuting and flexible-working hours are approved on a case-to-case basis.

Impacts & Risk

SMC is known to provide quality employment and offers a competitive employment package. Despite this, there is no assurance that current employees will be satisfied with their compensation in the long run. With the continuous growth of the Company, employee count is also expected to increase, that could also affect the internal dynamic of employees in SMC or in its subsidiaries. There is also the inevitable risk of losing key personnel due to the following:

- Employees may be displaced from original residence and therefore become dissatisfied;
- Employees may think benefits are not enough or that they are unfit for the job;
- Circumstances that may lead to failure to comply to the contribution obligation set under the Social Security Act 2018;
- Loss of employees due to underperformance;
- Loss of employees due to perceived under compensation; or
- Resignation of trained key personnel for personal reasons.

If they are unable or unwilling to continue their present positions, they may not be replaced easily, and the business might be disrupted significantly.

Management Approach to Identified Impacts and Risks

The Corporate Human Resources regularly engages the human resource (HR) departments of each business unit for consultations and coordination. This streamlines the processing and delegation of talent, and ensures that employees are screened thoroughly to meet the standards of SMC. With the Company's strategy to diversify and expand, key management personnel from acquired companies are retained to maintain expertise and leverage.

Benefits include bonuses, leaves, medical and dental, hazard pay, overtime pay, and even educational programs. In addition to statutory benefits, SMC provides healthcare (including medical and dental clinics and wellness centers), miscellaneous benefits, loans and financial assistance applicable to a variety of uses, retirement benefits, and survivor security and death benefits.

In addition to the statutory benefits, SMC initiates benefits to provide for the increased security of its employees, especially those assigned in different sites, 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. Medical and dental clinics and services and wellness centers are available to employees in head offices and some plant facilities.

SMC actively supports its employees with their desire for further studies, essential for career growth and development. Outstanding employees are given the chance to take on opportunities that would allow them to accelerate their career. The HR department has a structured plan according to a Leadership Development Framework that covers honing the skills of the employee from leading others to leading the whole enterprise. This includes learning sessions that allow one to be experienced and knowledgeable regarding planning, leading, organizing and controlling a strategy, from the perspective of the initial managerial level, up until executive level.

Opportunities and Management Approach

People are vital to SMC's market leadership in different industries. The Company will continuously strive to improve employee engagement and satisfaction to lower employee turnover, and making sure that employees are well-compensated and well-trained. The Company will also find opportunities for improvement through the analysis of attrition rates and employee feedback. SMC continues to look for ways to improve the wellbeing and development of its employees.

Employee Training and Development

Disclosure	Quantity	Units
Total training hours provided to employees ¹	329,333	Hours
Average training hours provided to employees ²	8	Hours
Female Employees	8	Hours/Employee
Male Employees	8	Hours/Employee

¹Includes data from SMC parent company, SMFB, Petron.

²Data is from SMC parent company.

Impacts & Risk

SMC is governed by the core value of *Malasakit*: taking care of one another and investing in the growth of everyone in the Company. A significant part of SMC's success depends on the high level of skills and technical know-how of its people. SMC ensures all employees receive proper training and opportunities for continuing education. Despite the availability of training programs across the Company, there remain inherent risks in these areas:

- Employees may refuse to undergo training or lack training retention;
- Insufficient training in unforeseen learning tracks may slow employee development, in turn the workforce may not be competent enough to meet changing standards;
- Insufficient training in the handling of materials and equipment may lead to decreased productivity and safety hazard; and
- Poorly structured training might have little to no impact on employee growth.

Management Approach to Identified Impacts and Risks

In order to address the above-mentioned risks, SMC ensures that all employees receive training to align their knowledge and skills with their designated teams before they formally begin working. Required training for head office staff and site staff are closely monitored by respective department leads and the HR department. These trainings include topics such as Plant Safety Measures and Emergency Protocols, Equipment Handling, and Workplace Waste Reduction, among various other topics. SMC also provides space for career growth and development through training programs and seminars throughout the year. The Company makes sure that employees participate in internal channels for growth and knowledge sharing through internal newsletters and emails facilitated by the HR department.

Not only does the Company equip its employees with the necessary competencies to do their jobs well, they are given avenues for career progression, should they choose to take them. The Company provides an education program for qualified employees who are seeking to expand their expertise. Career discussions are conducted to motivate employees to excel and aspire to "Do Good Better". SMC encourages on-the-job training or cross-posting for interested employees to have a grasp of the different functions within their line of business and gain further technical, functional, or leadership skills.

SMC also hosts workshop sessions that promote and hone their employees' intrapersonal and interpersonal skills, one of which is "SESSIONS @ SMC." Through this program, employees learn crucial soft skills to boost their productivity and individual growth.

Opportunities and Management Approach

Given the initiatives to develop SMC employees, existing modules can be further structured and developed into a professional certification program. These can be integrated to complement, supplement, or work towards completion of certifications that are recognized by their respective industries. By awarding this certificate, employees are more incentivized to complete training hours and attentively participate in training.

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	31	%
% of male workers in the workforce	69	%
Number of employees from indigenous communities and/or vulnerable sector	Not being tracked since employee acquisition takes merit-based approach	#

Impacts & Risk

SMC employee candidates are given equal opportunity regardless of race or sexual orientation. Depending on the business unit, task, department, or area of business, SMC recognizes the need for a diversified workplace to keep doors open for dialogue and varying perspectives. Should favoritism of any kind occur (e.g. men are hired over women due to perceived superiority in the required technical skills), SMC might face reputational risks as a top employer, thereby decreasing the chance of acquiring the right talent. This would also induce a biased working atmosphere and culture that stifles new ideas and points of view.

Management Approach to Identified Impacts and Risks

SMC is an equal opportunity employer that hires based on personal skills, knowledge, and capabilities of each candidate. As an inclusive employer, SMC gives opportunities to individuals especially those belonging to SMC's fence-line communities, regardless of their social status. As stated in *Section 9 Recruitment and Hiring* of SMC's Corporate Human Resources (CHR) manual: *"All applicants are considered regardless of gender, civil status, religion or physical ability, provided that the minimum education requirement and competencies required by the position are fulfilled."* The HR department also ensures that recruiters abide by the standard of conduct during the hiring process:

- Respect for People: recognize each other as individuals and commit to nurturing each other's individual capabilities.
- Integrity: conduct business in a manner which is ethical, fair and right, and in all reasonable circumstances, above reproach.
- Manpower Selection and Placement Policy: selection process is based on merits and aptitudes
- Diversity and Gender Equality
 - Adhere to the Republic Act 6725 which protects against the discrimination of women with respect to the terms and conditions of their employment.
 - Malita Plant seeks to increase proportion of women in the workforce by 4%.
 - Observes the Anti-Discrimination act of 2017 – protects employees from discrimination in all operations of business units.
 - Do not consider age, gender, religious, ethnic affiliations as bases for prospective employment.
 - Maintains 0 cases of discrimination (as of 2018), by ensuring open-door culture and open dialogue activities such as one-on-one employee-management meetings, team building, coffee table discussions, monthly communication, regular toolbox sessions.
 - Makes sure the business is free from risk of child labor, forced and compulsory labor, and violation of people's freedom of association.

Opportunities and Management Approach

SMC shall continue to expand the reach of job postings and enhance the hiring process to enable more candidates to bid for the open positions. The Company shall also keep abreast on pertinent labor laws and opportunities to assist the government and/or the local community in upholding diversity and equal opportunity in the workplace.

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements ¹	14	%
Number of consultations conducted with employees concerning employee-related policies	Not being tracked as of the moment	#

¹Includes labor union members from Philippines operations. SMC shall work on improving data collections to keep track of the number of consultations conducted.

Impacts & Risk

As of December 31, 2019, approximately 14 percent of the Company's employees were parties to collective bargaining agreements and 35 labor unions were active in the SMC Group. Maintaining good labor-management relations induces a healthy and productive workplace. Employee feedback and grievances are crucial to achieving an inclusive and harmonious working environment. Failure to prioritize this consequently risks the performance and reputation of the Company, should the labor union feel the need to execute actions beyond proper dialogue.

Management Approach to Identified Impacts and Risks

SMC Group maintains a good labor relationship and a constant line of communication with its employees. Above all, the Company respects the rights of its employees and allows for freedom of association and collective bargaining. Through the Whistle Blowing Policy from SMC's Company Policies, employees have the power to demand changes and question management decisions that may be detrimental to their work environment and career growth. Simultaneously, the Company reserves the right to conduct investigations and pursue disciplinary actions should there be any violations to its rules and regulations. Conflict resolutions involving employees are referred to Corporate Human Resources for mediation and evaluation. All employees are provided with an Employee Handbook and Code of Ethics manual which contain the policies and guidelines for the duties and responsibilities of every employee of SMC.

Opportunities and Management Approach

The SMC Group will continue to induce a strong compliance culture with labor laws and engage with collective bargaining representatives to hear any grievances, and act accordingly.

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-Hours ¹	14,924,359	Man-hours
No. of work-related injuries ²	44	#
No. of work-related fatalities	0	#
No. of work-related ill-health	0	#
No. of safety drills ³	103	#

¹Includes data from SMCGP and Petron.

²Includes data from Petron.

³Includes data from SMC parent company and Petron.

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	0	#

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g. harassment, bullying) in the workplace?

Topic	Y/N	If Yes, cite reference in the company policy
Forced labor	Y	SMC complies with all existing laws; which includes labor and employment laws.
Child labor	Y	Section 9.5 of SMC's CHR policy manual: "The minimum age requirement for applicants is eighteen (18) years old...With the exception of minimum age requirement, San Miguel adheres to a non-discriminatory policy on applicant qualifications"
Human Rights	Y	Policy on Health, Safety and Welfare of Employees as summarized in the Company's website ¹ : "As stated in the Company's Employee Manual, in acknowledgement of the varying needs inherent in every individual, the Corporation endeavors to provide an environment where the holistic wellness of employees is nurtured and protected. The Corporation also strives to protect its employees from harassment of any form. The Corporation actively implements mechanisms for dealing with such occurrences and ensures that it will act justly, swiftly and decisively in addressing such complaints."

¹ A summary of Company's Policies is available at <https://www.sanmiguel.com.ph/page/companys-policies>.

Impacts & Risk

Clear measures for occupational health and safety, compliance to labor standards, and respect for human rights, constitute good working conditions and enable employees to perform to their full potential. SMC has identified various risks to maintain good working conditions that may hamper the productivity of its businesses and its people.

Employees, especially those working in manufacturing facilities are exposed to industrial risks and hazards that may cause injury or even death. Common risks in manufacturing facilities include the following hazards:

- Physical hazards due to moving parts, uneven and slippery surfaces, as well as broken tools and equipment
- Cuts and wounds due to sharp objects, pinch points, and other equipment/materials; Electric hazards due to powerlines, exposed electrical components, weather and environmental conditions, and corroded components
- Respiratory health hazards due to air pollution and dangerous chemicals
- Idiopathic environmental hypersensitivity due to exposure to electric and magnetic fields

Site staff and visitors are also at higher risk if there is lack of appropriate safety training and protocols set should the above-mentioned risks occur. All these hazards would also increase Lost Time Injury (LTI) rate, leading to a decrease in plant productivity and output levels.

More than occupational hazards, abiding by labor law and human rights ensures a safe working space for employees. Violations may disrupt operations and adversely affect operations and business performance. Other than the fines and legal ramifications to the Company, violations to labor laws and human rights negatively impact overall employee well-being.

Management Approach to Identified Impacts and Risks

SMC maintains a high standard of safety and encourages its employees to foster a culture of safety in their workplaces. It always aims to exceed standards prescribed by local regulatory bodies such as Occupational Safety and Health Administration (OSHA) and Department of Labor and Employment (DOLE). A task force is assigned to address immediate concerns that affect the health and safety of employees should emergencies such as disease outbreak arise.

For high-risk operations in the Food and Beverage, Packaging, Fuel and Oil, Energy and Infrastructure businesses, the SMC Group ensures that workplace conditions are conducive to productivity, safety, efficiency, and excellence. SMC's facilities have attained the following relevant certifications:

- Integrated Management Systems (IMS)
- Occupational Health/Safety Management Systems (OHSAS 18001:2007)
- Quality Management System (ISO 9001)
- Environmental Management Systems (ISO14001)

In addition, SMC's facilities undergo yearly safety audits to monitor its workplace conditions, safety performance, and other key metrics. Findings from these audits are used to improve existing procedures and controls to further boost SMC's productivity without sacrificing the safety of employees.

On the ground, daily toolbox meetings covering hazards and safety measures are done before the start of work to keep employees on their toes. Plants and sites are also equipped with disaster preparedness kits, along with people with the proper training to execute emergency safety protocols. Visitors to any of the facilities are also required to undergo safety briefings before they enter.

SMC spares no expense in providing its workers with the best personal protective equipment (PPE) specific to their tasks. Each facility has its own stock of PPEs readily available for employees and guests. Furthermore, machines are equipped with emergency shutdown switches and protocols.

All of SMC's facilities also conduct regular disaster and emergency drills. These are done in coordination with the local fire departments, police departments, and Red Cross/Crescent. Regular training prepares employees to react promptly and appropriately to any emergency that may occur at the facilities. Workers should at least have Basic Occupational Health and Safety Training (BOHS). Strict implementation of rules regarding the use of PPE is implemented at worksites. Each head office and facility has a fully-equipped infirmary and ambulance should any emergency occur.

As stated in SMC's Code of Business Conduct and Ethics, policies to protect the employees are "guided by the principles of Industrial Peace, Respect for Rights, Right to Discipline, and Good will and Faith." Should there be grievances towards management, employees have the right to raise them

(Whistleblower policy). On the other hand, employees found guilty of an offense shall undergo a thorough investigation process that follows the Company rules and regulations, implemented in accordance with the labor law. SMC ensures that human rights are protected through internal policies aligned with labor and other relevant laws.

SMC facilities are certified with OHSAS 18001:2007 Occupational Safety and Health management. All areas of operations and employees are covered by the Occupational Health and Safety Plan, which includes:

- Establishment of Environment, Health and Safety Committee in plants;
- Conduct of safety orientation, Leadership Safety Walks, peer-to-peer work activity observations, safety inspections and meetings;
- Reporting of near-misses and workplace fields;
- Identification of possible OHS hazards, assessment of risks and control measures;
- Provision of comprehensive OHS trainings to employees prior to deployment to power plants, customized based on function (i.e. protocols on permits to work in confined spaces of entry, work at heights and hot work safety) with periodic refresher courses during their stay; and
- Establishment of Incident Management Procedure for the investigation of work-related incidents and illnesses and the conduct of root cause analysis.

Opportunities and Management Approach

SMC puts their people first above every concern – their safety and well-being is the priority. SMC's HR department and the respective HR departments of business units are continuously developing initiatives to make sure employees receive sufficient training and the appropriate team-building activities to constantly ensure a safe and healthy workplace.

Supply Chain Management

Do you have a supplier accreditation policy? If yes, please attach the policy or link to the policy:

While the Company has its group-wide supplier accreditation policy, it will not be disclosed as it is deemed confidential. The supplier accreditation policy demands that an accredited supplier abide by statutory requirements as well as standards set by the Company. Each supplier contract includes a clause that ensures adherence to laws that tackle topics such as, but not limited, to environmental performance, forced labor, child labor, human rights, bribery, and corruption.

Impacts & Risks

SMC has recently established its Procurement Governance Group (PGG) in an effort to streamline the process of accrediting suppliers. The Company does not depend on a limited list of suppliers. Although supplier accreditation involves thorough screening by the PGG, there may be inherent supply chain management risks that may impact the performance and reputation of the Company.

Risks in the supply chain could involve awarding contracts to suppliers that do not meet SMC's standards and are not compliant to environmental regulation standards and labor laws. Violation of these laws by

suppliers would negatively impact the Company's brand and reputation. Moreover, these would cause project delays and would also result in higher construction and production costs. Expiring legal documents and hidden grievances that were missed during the accreditation process may pose reputational risks to the Company, as well as possible disruption to operations. The negligence of suppliers and other contractors in environmental, labor, human rights, and corruption parameters stand to adversely affect SMC's reputation and performance. As an example, workers of third party contractors, who expressed labor concerns, might be mistaken by the media and the public as SMC employees on the basis that they were assigned to work within company grounds.

Management Approach to Identified Impacts and Risks

Other than legality and capacity, SMC CPG also considers the following criteria when accepting suppliers:

- Suppliers who are engaged in Wastewater Treatment and Environmental-Related Service are required to provide DENR Certification to ensure that they are compliant with the Clean Air Act of 1999 and its Implementing Rules and Regulations.
- Suppliers are required to provide trade references with contact information in order for the Supplier Management Team crosscheck their performance and services.

The SMC CPG also follows good governance practices such as:

- Supporting the protection of human rights and making sure that people's rights are not abused with the help of SMC HR's policies and guidelines, which CPG adheres to.
- Working to eliminate forced labor, child labor, and discrimination in the workplace.
- Preventing corruption in all forms such as fraud, bribery, and extortion. As part of the corporate supplier management policy, the suppliers are asked to accept the policy on integrity and honesty in all of its dealings with SMC, specifically the procurement group.

As discussed in SMC's policies, suppliers must follow laws that protect their workers and abide by Philippine laws. These specific compliance requirements are stated in each of their contracts. This standard set of requirements and/or contract clauses is to be followed by all subsidiaries.

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 SMFB's Food Division has deployed supplier engagement teams to provide training and further develop skills around building sustainable and resilient supply chains.

Opportunities and Management Approach

The supplier management policy is a work in progress as the Company just launched the automated registration and accreditation system and is coping with moving all suppliers into the system. A child labor policy will be incorporated into the statement policy which suppliers are asked to accept as part of the registration process.

Relationship with Community

Significant Impacts on Local Communities

Operations with Significant Impacts on Local Communities

1. SMFB's farms and piggeries	
Location	Region I (Pangasinan, Ilocos), Region II (Isabela), Region III (Zambales, Bataan, Tarlac, Nueva Ecija, Pampanga), Region IV (Batangas, Quezon, Cavite), Region V (Camarines Sur, Albay), and Region VI (Iloilo)
Vulnerable Groups ¹ (if applicable)	N/A
Does the particular operation have impacts on indigenous people (Y/N)?	N
Collective or individual rights that have been identified that are of particular concern for the community	Potential impacts from smell and wastewater from livestock and poultry farms
Mitigating measures (if negative) or enhancement measures (if positive)	<p>SMC, through SMFB's operational sites (plants, farms, etc.) go through assessments before they are established. It ensures that each facility abides by the Company's internal guidelines and is approved by the Department of Agriculture (DA) and DENR policies. There is a set of guidelines to ensure that a distance from communities is achieved to avoid disturbance.</p> <p>Site qualification, as part of the guidelines, includes the site be within the agricultural zone of the community and be 1 kilometer away from nearest built-up residential areas and farms. Moreover, proper farm management and maintenance of the facilities are included in the requirements set by the Food Segment to the hog and poultry contract breeders. These could all potentially address the foul odor concern.</p>

2. Sourcing of Raw Materials for SMFB's Food Division	
Location	Several locations across the Philippines
Vulnerable Groups ¹ (if applicable)	N/A
Does the particular operation have impacts on indigenous people (Y/N)?	N
Collective or individual rights that have been identified that are of particular concern for the community	Employment is the primary concern of communities residing near manufacturing facilities
Mitigating measures (if negative) or	SMFB implemented a sustainable sourcing program that

enhancement measures (if positive)	brings raw materials sourcing closer to manufacturing facilities nationwide. This has opened livelihood opportunities which are especially impactful on the poor provinces of the country. The production of the cassava has also secured an alternative to feed ingredients, while also supporting and boosting local suppliers.
------------------------------------	---

3. Distileria Bago, Inc. (DBI) of the Spirits Segment	
Location	Bacolod, Negros Occidental
Vulnerable Groups ¹ (if applicable)	N/A
Does the particular operation have impacts on indigenous people (Y/N)?	N
Collective or individual rights that have been identified that are of particular concern for the community	Employment is the primary concern of communities residing near DBI's operational facility in Bacolod.
Mitigating measures (if negative) or enhancement measures (if positive)	DBI opened numerous jobs that numerous qualified applicants and their respective families can benefit from. Furthermore, it extends its help through its own CSR programs.

4. Petron's refinery operations	
Location	Limay, Bataan
Vulnerable Groups ¹ (if applicable)	N/A
Does the particular operation have impacts on indigenous people (Y/N)?	N
Collective or individual rights that have been identified that are of particular concern for the community	Potential odor and waste Local employment and procurement opportunities
Mitigating measures (if negative) or enhancement measures (if positive)	<p>Petron put in place the following measures:</p> <ul style="list-style-type: none"> • IMS Certification • Installation of Environmental Protection Facilities • Compliance to products environmental standards • Use of low sulfur fuel gas for furnaces and boilers • Measuring, Managing and Minimizing PBR's environment footprint • Odor Management • Waste Segregation Performance Index (WSPI) for PBR and its contractors • Expansion programs in the Refinery generates economic activities and jobs creation. • Preference for qualified local residents for job

	vacancies <ul style="list-style-type: none"> ● Engagement of local contractors for maintenance, expansion projects and environmental programs ● Recommending contractors to source materials and supplies locally
--	---

5. Angat Hydroelectric Power Plant operations and the Angat Dam and Dykes Strengthening Projects	
Location	Angat, Bulacan
Vulnerable Groups ¹ (if applicable)	Fence-line communities and residents 15 Dumagat families
Does the particular operation have impacts on indigenous people (Y/N)?	Y
Collective or individual rights that have been identified that are of particular concern for the community	Relocation of communities Possible flooding
Mitigating measures (if negative) or enhancement measures (if positive)	<p>ADDSP relocated affected families, and provided them with new housing units, access to utilities and transportation assistance to their new homes.</p> <p>In partnership with Metro Manila Waterworks and Sewerage System and the National Power Corporation, the ADDSP also put in place a flood forecasting and warning system, and included various flood protection works. During the construction of the project, IPs, specifically from the Dumagat Tribe, and local community members, were hired as workers. The ADDSP provided them an additional income stream while working towards the improvement of the dam</p>

6. Malita Power Plant operations	
Location	Malita, Davao Occidental
Vulnerable Groups ¹ (if applicable)	Fenceline communities and residents
Does the particular operation have impacts on indigenous people (Y/N)?	Y
Collective or individual rights that have been identified that are of particular concern for the community	Local employment and procurement opportunities
Mitigating measures (if negative) or enhancement measures (if positive)	IPs and other stakeholders are involved in the planning and implementation of culturally-sensitive CSR programs.

7. Road construction and improvement projects	
Location	Region III, Region IV-A
Vulnerable Groups ¹ (if applicable)	N/A
Does the particular operation have impacts on indigenous people (Y/N)?	N
Collective or individual rights that have been identified that are of particular concern for the community	Unnecessary heavy traffic and accidents
Mitigating measures (if negative) or enhancement measures (if positive)	SMHC manages the impact of its operations to the community through its traffic management task force.

¹ Vulnerable sector includes children and youth, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).

For operations that are affecting IPs, indicate the total number of Free and Prior Informed Consent (FPIC) undergoing consultations and Certification Preconditions (CPs) secured and still operational and provide a copy or link to the certificates if available:

Certificates	Quantity	Units
FPIC process is still undergoing ¹	1	#
CP secured ²	1	#

¹MOA has been signed between IPs and the SMCGP in 2019 for the expansion project in Mariveles, Bataan.

²This is a completed Project in Angat, Bulacan back in 2018.

Impacts & Risks

SMC's operations span the whole Philippine archipelago. Its products can be found in every barangay, in every store, and in every mall. Its manufacturing plants, power plants, fuel terminals and fuel service stations are strategically located all over the country.

With such a high presence, it is inevitable that complaints regarding the operations will be encountered. SMC recognizes its impact on communities especially as plans for growth and expansion of the Company materialize. Construction of new operational sites may pose health and safety hazards and degrade natural resources originally serving the community. In rare but inevitable cases, possible displacement of informal communities in prospective areas will greatly impact the lives of local communities.

Management Approach to Identified Impacts and Risks

Before all projects start construction, an extensive study is conducted in the form of an Environment Impact Assessment (EIA) in order to determine the viability of a certain location. This study takes a few

years to complete, therefore exhausting all potential negative effects the projects may have and formulating the needed mitigating measures to address these effects. Once a site is selected, the business unit coordinates with the local government unit for a stakeholder engagement session. This session is used to inform the local community about the project and provide an open forum for them to state their concerns. SMC tries its best to resolve all concerns the local residents may have regarding the project.

Once the project is completed, a Grievance Redress Mechanism (GRM) is established, empowering communities to voice any future concerns. SMC's subsidiaries provide a hotline number or email address as a communication channel for the GRM. Stakeholders are also informed that they can contact the SMC parent company in the event that the subsidiary does not address their concerns.

With the SMC Foundation at the forefront, the SMC Group strives to connect with the local communities and seek mutually beneficial relationships with them. Partnerships can include opening hiring opportunities to those who live near the sites and providing support for local government projects.

In the event that a project will affect the livelihood and culture of indigenous peoples, SMC will immediately coordinate with the National Institute for Indigenous Peoples before proceeding.

Opportunities and Management Approach

There is an opportunity to engage communities in community building programs with the support of the SMC Foundation. SMC is always exploring such programs that can induce a harmonious working relationship with community organizations and LGUs leading to mutually beneficial agreements and outcomes.

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third-party conduct the customer satisfaction study (Y/N)?
Customer satisfaction ¹	96%	Y

¹Includes data from Petron only. SMC has various ways of obtaining and rating customer satisfaction depending on the line of business and thus, an overall score is not applicable.

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety ¹	0	#
No. of complaints addressed	0	#

¹Includes data from Petron only.

Impacts & Risk

SMC holds a highly diversified portfolio of products and services. The size of the Company and its capabilities allow them to develop products not only directly for consumers but for the other businesses and the government as well.

SMC's Food and Beverage business products' quality, taste, affordability, and especially safety, impacts the satisfaction of its customers. The quantity and timeliness of deliveries of distributors can also affect customer satisfaction. For the Fuel and Oil business, strategic location of its service stations, fuel prices, and supply are the aspects that can determine affinity of its customers. Low customer satisfaction causes a decreased amount of sales thereby impacting business performance and financial position.

The Energy, Infrastructure and Packaging businesses' customer satisfaction are determined by quality of agreed output, regulatory compliances that may delay operations, and good working relationship with customers. Terminated agreements due to low performance or other issues may stain reputation and hinder accumulation of new clients. Low customer satisfaction usually signals inefficient service, posing a risk to the Company's revenues and reputation.

While there are strictly implemented product safety policies, there is no direct assurance that products would be free from all defects or tampering during manufacturing and distribution, and that services would always be safe from risks from natural hazards and human errors. Such risk can have an impact on the customers and the Company.

Management Approach to Identified Impacts and Risks

SMC ensures that all products and services are of good quality and pass high standards of screening before they reach customers; such as:

- Food & Beverage: It has products that address, and are attuned to, the evolving lifestyles and needs of its consumers. San Mig Light and San Mig Zero, a low-calorie beer, were introduced to address increasing health consciousness. Initiatives like these have been pushed in the beverage division for years.
- Packaging: Compliance to the highest standard and government requirement (eg. FSSC 22000, QA ISO 900). Products are processed in compliance with intensive QA tests and Certificate of Inspection to assure customers of high-quality products
- Energy: Proper maintenance of power plants and assigning a task force to implement safety measures
- Fuel & Oil: Commitment to supplying goods and services of the highest standards
- Infrastructure: Ensuring that materials are of high quality; designing structures to be resilient to natural disaster, and hiring highly qualified engineers and architects

The SMC Group also initiates efforts to engage its customers to better understand their needs and grievances. These engagements enable the Company to identify areas for improvement. The Company strives to build lasting relationships with their partners. Channels for dialogue are always open should complaints or misunderstandings occur. The Company implements a centralized and dedicated customer service unit that can be reached via its website, email, *Malasakit* hotline, and social media pages. Complaints and concerns are strategically addressed through this institutionalized system.

Opportunities and Management Approach

There is a realized opportunity to increase customer engagement through social media, regular interviews, and focus group discussions.

Marketing and labelling

Disclosure ¹	Quantity	Units
No. of substantiated complaints on marketing and Labelling	19,868	#
No. of complaints addressed	14,803	#

¹ Includes data from Petron only.

Impacts & Risks

The SMC Group uses a mix of traditional and non-traditional communication channels for their consumer goods. Alignment of packaging and marketing efforts are of utmost importance as mismanagement of these may confuse its customers. Miscommunicating product ingredients may lead to dissatisfaction and may have regulatory repercussions.

SMC is also dependent on trademarks and proprietary rights to ensure production distributions are not compromised. With the Company's highly diversified portfolio, presence in, and significant market share in different industries, third parties may attempt to sell counterfeit versions of its products or confusingly similar items. Consumers may mistake these products as real SMC products, resulting in reputational and sales risks over time.

The Company may also encounter customer feedback that may tarnish its brand and reputation. Inaccurate reports about the health effects of dietary trends and beverage consumption, for example, may also affect purchasing patterns. If the marketing strategies of the Company are not successful, timely, or responsive to changes in consumer preferences, the business and prospects of the Company could be materially and adversely affected.

Management Approach to Identified Impacts and Risks

SMC's Business units have skilled marketing and sales teams that handle customer relations. Task forces are trained to receive customer complaints and direct them to the right people to resolve issues, complaints, or grievances. All product labels and collateral undergo thorough screening with pertinent departments to ensure compliance to standards set by the Department of Trade and Industry (DTI), Food and Drug Authority (FDA), and other regulatory offices. Most packaging needs are sourced directly from the Company's packaging business. This allows SMC to closely monitor, and ensure, that products are properly labeled.

Opportunities and Management Approach

SMC will continue to ensure that its marketing collaterals will reflect the products and services in an authentic manner that upholds consumer interests.

Customer Privacy

Disclosure ¹	Quantity	Units
No. of substantiated complaints on customer privacy ²	0	#
No. of complaints addressed	0	#
No. of customers, users and account holders whose information is used for secondary purposes	0	#

¹Includes disclosure from Petron.

²Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

Data Security

Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts, and losses of data	0	#

Impacts & Risk

SMC places a high value on the privacy of its customers, employees and suppliers, and thus strictly adheres to the Data Privacy Act. Even with a solid record in data security, SMC does not let its guard down, as any data breach can compromise the security of SMC. It may result in a loss of employee and public trust, and may decrease the Company's stock market value. The in-house formulations of SMC products may be leaked, thus harming their position in the market.

- Data obtained from customers are considered inputs for overall system analysis of the Company. Any breach in data could expose confidential information and business plans, resulting in penalties and damaged client relations.
- Inefficient data security will lead to data breaches and could expose sensitive information such as client lists and fuel formulations.

Management Approach to Identified Impacts and Risks

Data of business units and their clients are safeguarded by SMC's group-wide data management system through its Corporate Information Technology Management (CITM) group. The Company has set internal standards that protects any personal data collected from customers and these are made known to them through SMC's Privacy Statement.

Customer data provided to SMC, through any medium, in connection with customer comments, suggestions, and complaints is considered and treated as Personal Data. Said data is only used by the Company to further inquire about, and address the customer's concern, provide updates, as well as seek additional feedback. Personal data are retained in the SMC database for a maximum period of five years.

Technical, organizational, and physical measures are put in place to protect the confidentiality, integrity, and availability of Personal Data from destruction, unauthorized access, alteration, disclosure, fraudulent misuse, and/or any other unlawful processing, as well as other natural and human dangers.

In addition to SMC's compliance with the Data Privacy Act, SMC requires its employees to undergo data privacy training. SMC's established Data Privacy and Security Office launched a primer and FAQ booklet to increase the awareness of and ensure proper implementation of the Data Privacy Act.

Newsletters regarding methods for protecting company and personal data are also disseminated. SMC's networks are also secured with state-of-the-art firewalls and security systems. There are also strict policies with regards to data sharing within and outside the organization. Transfers of important and sensitive data between departments require the approval of the managing authority. Also, all engagement with third parties require that a Non-Disclosure Agreement be signed.

SMC also has engineering controls in place to secure its systems. Employees are issued laptops which have pre-installed anti-virus software, and these are constantly updated. Central Processing Units (CPUs) in employees' workstations have their USB ports disabled, preventing the unnecessary copying of documents. For those employees working remotely, necessary software was secured for them to access files remotely. The use of this software and data transfers are constantly monitored to ensure the security of data and the integrity of SMC's systems.

Opportunities and Management Approach

The Company shall continuously improve existing data security systems in place through proper dissemination of guidelines and technical upgrades.

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Food & Beverage Business

Product Category: Proteins (poultry and fresh meats), Flour Milling, Prepared and Packaged Food (refrigerated and canned meats, dairy, spreads, biscuits and coffee)

- In 2019, the Food and Beverage Business provided 393,548 tons of flour, 22,476,200 tons of poultry and meats, and 196,791 tons of prepared and packaged food products.
- SMC Group's products are known to be reasonably priced and accessible in a wide range of retail establishments. Through these, SMC helps combat food insecurity which is typically associated with the inability to regularly eat healthy, balanced diets.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
Access to Safe and Nutritious Food Severe levels of food insecurity can lead to undernutrition and hunger. Undernourishment, or the inability to meet one's dietary energy requirements, has a great impact on one's productivity and is a barrier to conducting a normal, healthy and active life. With the continuous growth of demand for food, SMFB develops	Health and safety risks due to misuse or contamination The business inherits the risks of agriculture that may trickle down to the end-product. If for some reason, products were tampered or contaminated, consumers are exposed to the risk of food poisoning. As meeting the quantity demanded of the growing population is aimed at, there is a chance to overlook	Quality Assurance and Sanitation¹ Protocols To minimize this risk, production facilities of the business unit adheres to strict quality and safety parameters. See section on Management Approach on Product Quality and Food Safety for details. ² Proper marketing and labeling Customers are fully informed of

¹ As written in Health and Safety risks from SMFB: The Company also adheres to the Sanitation Code which provides for sanitary and structural requirements in connection with the operation of food establishments which include such places where food or drinks are manufactured, processed, stored, sold or served. Under the Sanitation Code, food establishments are required to secure sanitary permits prior to operation which shall be renewable on a yearly basis. The said Code is implemented by the DOH. The Company employs Good Warehousing Practices and Sanitary Warehousing and Distribution Preventive Control Plans.

² As explained in the Management Approach on Food Safety for SMFB: *The Company "shall uphold compliance with quality and food safety standards, as well as applicable recognized quality regulations, standards and practices (e.g., Quality and Food Safety Regulations, Good Manufacturing Practices, Good Laboratory Practices, etc.) that are required in the markets where our products are registered and distributed". To ensure quality and food safety, the Company follows various international standards in materials safety testing and Quality Managements Systems such as ISO 22000 (Food Safety Management System) and Good Manufacturing Practice, ISO 9001:2015 (Good Feed Milling Practices), and Hazard Analysis and Critical Control Point (HACCP). Plants also undergo regular compliance audits and products go through several quality and safety tests and analyses before these are distributed. Employees also undergo several trainings such as quality assurance, proficiency testing, and food safety and handling.*

http://www.smfb.com.ph/files/reports/SMFB_CodeofBusinessConductandEthics.pdf

and produces goods that meet nutritional needs and the financial capacities of Filipino families.	<p>possible biological breaches from livestock or other raw materials.</p> <p>In addition, products may bring adverse effects on human health for individuals with allergies to some ingredients.</p>	<p>product contents for proper and timely consumption.</p> <p>Lines for customer management Should a health risk arise, avenues to immediately contact the business unit are available, through customer care hotline, email and social media, complaints are communicated and addressed by designated handlers.</p>
---	---	---

Applicable SDG Goals and Targets:

- SDG Contribution: Goal # 2 – Zero Hunger
 - 2.1: *By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round*

Product Category: Animal Nutrition and Health (feeds and veterinary medicine)

- This product category delivered 231,975,674 tons of feeds and veterinary medicine that helped increase the agricultural yield in 2019. Being vital in the mitigation of food insecurity in the country, the business unit's participation in agriculture can be considered a significant contribution to alleviate hunger.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
<p>Securing nutritional value through healthy breeder stock As part of achieving zero hunger, healthy livestock are important to ensure that end commercial products are of great nutritional value. This key product supports food manufacturing systems to achieve quality and quantity demanded by the Philippine and even international markets.</p>	<p>Negative side effects of product misuse, and inherent health risk of hog and poultry farms Encouraging the increase in livestock has safety and health impacts on its own. Improper use of feeds and medicine, and inadequate care of animal farms due to lack of capacity, information and the like, can pose threats to fence-line communities, contract growers, and end consumers.</p> <p>The use of antibiotics is not a substitute but a supplement to good sanitation and proper handling of livestock. The excessive use of antibiotics may also give way for the growth of resistant bacteria, potentially</p>	<p>Efforts to increase awareness of growers and distributors To ensure quality and increase independence of contract growers and farmers, capacity building trainings are given to them. They are provided with the technology and the know-how on more efficient practices, thus increasing productivity.</p> <p>Aside from this, social media platforms are utilized to connect and teach growers about proper care and treatment for their animals. Instructional videos, success stories, and recent technologies and techniques are regularly posted on the <i>#AlagangB-Meg</i> Youtube</p>

	harming host animals and end consumers. ³	Channel. ⁴ Topics include African Swine Fever detection, prevention and management; Basics of Biosecurity and Biosecurity Protocols, hog stress management, and other essential topics on hog and fowl raising.
<p>Access to Food through Sustainable Agriculture</p> <p>Under the food division, SMC partners with contract growers and farmers to propagate breeder stock and supply other raw materials. Through this partnership, revenue streams are provided for growers and farmers as they supply quality produce, proteins and other raw materials.</p> <p>SMC promotes sustainable agriculture and provides technology and technical expertise to improve the efficiency of local contract growers. The boost of income of agricultural workers also has implications on poverty reduction, as farm hands are often living in subsistence conditions.</p>	<p>Negative impacts of Agriculture, namely water scarcity, over-irrigation, and monoculture.</p> <p>Agriculture is water-intensive and improper management may result in water scarcity, which will hinder future productivity of the land. Over-irrigation can lead to soil degradation and the need to use fertilizers. It can also result in a drastic reduction of ground and surface water that may bring about conflicts among water users, as well as health implications.</p> <p>Monoculture practices make crops more vulnerable to insect infestations, which then requires the application of pesticides. Fertilizers and pesticides have become common inputs in crop and livestock businesses. However, should these go uncontrolled, they can cause harm to human health or to the environment when they leach into the water table.</p>	

Applicable SDG Targets:

- SDG Contribution: Goal # 2 – Zero Hunger
 - 2.3: By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment
 - 2.4: By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality

³ The Effects on Human Health of Subtherapeutic Use of Antimicrobials in Animal Feeds
<https://www.ncbi.nlm.nih.gov/books/NBK216502/>.

⁴ Alagang B-Meg Youtube Channel: https://www.youtube.com/channel/UC_ODv9sBgJ_b0hozCxt1q1Q/featured.

Product Category: Beer, Spirits and Non-alcoholic beverages

- SMC through its food and beverage business are market leaders in the beer and gin categories.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
<p>Increase in exported products of the Philippines SMC's beverage products are exported to almost 70 territories across the globe and are expected to reach new markets in Europe and parts of Africa. Known as brands that foster Filipino values of hospitality and camaraderie, these products are exported primarily to markets with a high concentration of Filipino communities. Certain brands are produced for export only such as Gran Reserva brandy and Tondena Manila Rum.</p>	<p>There is a potential for alcohol abuse</p>	<p>Responsible production and consumption SMC puts efforts on responsible drinking through advertising materials. The business unit also makes sure to abide by applicable laws and regulations on alcohol drinking.⁵</p>

Applicable SDG Targets:

- SDG Contribution: Goal # 8 – Decent Work and Economic Growth
 - *8.1: Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries*
- SDG Contribution: Goal # 17 – Partnership for the Goals
 - *17.11: Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020*

Energy Business

Product Category: Coal Power, Natural Gas Power, Hydroelectric Power, Battery Energy Storage Systems

- SMC through SMCGP provides energy to various distribution utility companies through a varied energy mix. Of the 28,112 GWH consolidated off-take volume for 2019, 9,996.7 GWH clean coal energy and 270.9 GWH renewable energy were produced.
- Providing power nationwide, SMCGP's plants contribute to 20% of the National Grid, 26% of the Luzon Grid, and 9% of the Mindanao Grid as of December 31, 2019.

⁵ As explained in the Management Approach on Marketing and Labeling for SMFB: *For its alcoholic beverage lineup, SMFB promotes responsible drinking among its consumers. In every media TV and radio commercial and advertising and promotional material, there is always a statement to "Drink Responsibly" and that these products should not be served to minors.*

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
<p>Access to affordable and reliable energy Access to electricity addresses major critical issues in all the dimensions of sustainable development. The target has a wide range of social and economic impacts, including facilitating development of household-based income generating activities and lightening the burden of household tasks. Without this, telecommunications and health services are limited as well, food shelf life is shortened, and educational growth is impeded.</p> <p>Innovation and addition to energy mix Energy access is a major development constraint in many developing countries and, while starting from a relatively low base, energy demand is expected to grow very rapidly in many of these countries in the future. SMC provides access to reliable and affordable power that utilizes the latest technology for improved efficiency and drives economic growth. While coal is still the major source of energy, the business unit provides alternative energy sources that help reduce the strain on non-renewable sources. Aside from coal-fired power plants, the following plants are equipped with latest technologies:</p> <ul style="list-style-type: none"> ● Angat Power Plant (Hydroelectric) ● Limay Power Plant (Circulating fluidized bed) ● Malita Power Plant (Circulating fluidized bed) ● Masinloc Power Plant (Pulverized coal type) 	<p>Power surge and trips Any power surge and power trips brought about by human error, machine malfunction, or natural disaster, can have a great impact to generation and to eventual transmission and distribution. If systems for immediate action are not properly established, adverse effects such as disruptions to electric supply may impact economic and business activities of those connected to the grid.</p>	<p>Maintenance and audit of power plants. Power plants are carefully planned and equipped for risks that may hinder them from delivering power to the grid. Voltage regulators are installed should any power surge occur. Systems are in place to ensure timely mitigation of said negative impact.</p>

Applicable SDG Goals and Targets:

- SDG Contribution: Goal # 7 – Affordable and Clean Energy
 - 7.1: By 2030, ensure universal access to affordable, reliable and modern energy services
 - 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix
 - 7.3: By 2030, double the global rate of improvement in energy efficiency
 - 7.B: By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programs of support

Fuel and Oil Business

Product Category: Fuel, Jet Fuel, Lubricants, LPG

- 107 million barrels of oil were produced in 2019, which supplies approximately 30% of the country's total fuel requirements.
- Limay Refinery has crude oil distillation capacity of 180,000 barrels per day.
- Petron has a total of around 2,435 service stations in the Philippines as of end 2019.
- Serve essential industries including power-generation, manufacturing, transportation, aviation and agriculture.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
<p>Access to energy and support industrial technology development</p> <p>Crude oil is converted into different types of fuel supporting affordable, accessible, and sustainable transportation and even manufacturing industries.</p> <p>LPG is sold to about 14,500 locations across the country to reach homes and businesses nationwide as a source of energy for various uses.</p> <p>Automotive fuel and lubricants are sold to both direct consumers and industrial manufacturers and transporters. Essential industries including power-generation, manufacturing, transportation, aviation and agriculture are being served. In this way, the business contributes to the development and industrialization of different</p>	<p>GHG Emissions due to vehicle fuel combustion</p> <p>The use of fuel products significantly impacts air quality. The increased use of automotive and motorcycle vehicles collectively could emit large amounts of carbon dioxide. If not monitored and regulated, these could affect human health and contribute to climate change.</p> <p>Defects or misuse of fuel combinations</p> <p>Lack of information and proper knowledge of the types of fuel, and appropriate machines could lead to misuse of products (e.g. if lubricants are not applied, or fuel mix is not appropriate to vehicle). Misuse poses the risk of road and machine accidents due to malfunctions.</p>	<p>Environment Management Systems</p> <p>The refinery is equipped with systems that help reduce impact in the nearby ecosystem and water systems. The practice in Bataan has been replicated to rehabilitate Boracay's water system. Petron has also adopted 9 waterways for rehabilitation. In addition, 100 Petron service stations abide by Environment programs and all 30 terminals adhere to International Environmental Standards.</p> <p>Product development</p> <p>As part of its commitment to sustainability, Petron continues to develop fuel that minimizes the strain on the environment without sacrificing efficiency. The Petron Blaze 100 Euro 6 is the first gasoline in the Philippines that meets the PNS Euro4-PH and EN</p>

parts of the Philippines, as well as provide support for the trade of goods to and from the country.		228:2005 fuel quality standards. ⁶ Road Safety - Lakbay Alalay To ensure transport safety, Petron has been running assistance programs that provide motorists free car safety checks and medical assistance in participating service stations.
Supply supplementary power The 140-MW Refinery Solid Fuel-Fired Boiler (RSFFB) in Limay, Bataan produces electrical and steam energy to power the Petron Bataan Refinery 100%. It produces approximately 10 MW of surplus power, which it contributes to the Luzon grid.	Continued reliance on fossil fuel Burning of coal releases carbon dioxide and other greenhouse gases, which are fundamental drivers of climate change. Moreover, the air pollution associated with the operation of coal plants have known health and environmental implications.	Modern technology and maximizing resources RSFFB is one of the first in the Philippines to use clean coal technology such as the Circulating Fluidized Bed, which reduces emissions by roughly 95% compared to normal coal plants. It also utilizes petroleum coke, a by-product of Refinery Master Plan 2 as feedstock for the power plant.

Applicable SDG Goals and Targets to Contribution:

- SDG Contribution: Goal # 7 – Affordable and Clean Energy
 - 7.1: By 2030, ensure universal access to affordable, reliable and modern energy services
 - 7.B: By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States, and land-locked developing countries, in accordance with their respective programs of support

Infrastructure Business

Service Category: Expressways, Railways, Airport, Trade Port

- ◆ Annual average daily traffic (AADT) of all the operating tollways of SMC Infra reached more than 800 thousand in 2019.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
Diversify, innovate, and upgrade industries for economic development through efficient	Environmental impacts of infrastructure	Continuous innovation In an effort to reduce environmental impact as

⁶ Developed as an environment-friendly fuel alternative, Petron Blaze 100 Euro 6 provides the following performance benefits: (1) Powerful performance due to its high octane and excellent engine cleaning capability, (2) Fuel efficient operation due to its organic combustion enhancer and friction modifier, (3) Enviro-clean because it meets European specifications (50 ppm maximum for sulfur and 1% maximum benzene) for cleaner and more environment-friendly fuel, (4) Prolonged efficient operation of catalytic converters due to its low sulfur content

<https://www.petron.com/product/petron-blaze-100-euro-6/>

<p>transportation systems</p> <p>SMC provides reliable and resilient infrastructure that supports economic development and human well-being, generates employment, and facilitates tourism. The infrastructure business streamlines transportation, thereby increasing business and industry productivity in the metro and in nearby provinces as well. An increase in productivity from industries produces better goods and services. These in turn support the needs of a growing population, providing more opportunities for employment and helping improve overall quality of life.</p>	<p>Infrastructure development projects contribute to air pollution during construction and utilization. As land acquired is transformed to suit corresponding infrastructure, soil erosion and loss of biodiversity may occur. There are also environmental impacts of GHG emissions from transportation, significantly contributing to climate change.</p> <p>Social impacts of infrastructure</p> <p>Infrastructure projects are subject to the negotiation of right-of-ways by the government and the cooperation of local communities. New projects may entail the displacement of communities which ultimately may affect their quality of life. Construction of roads and public transport systems may also cause increased traffic jams and consequently, public inconvenience. Social impacts may also be carried out as the infrastructure is used. Because of the progressive industrialization brought about by efficient transportation systems, cities or central business districts (CBDs) in particular may experience congestion which have environmental and social impacts in itself (pollution, increase of communicable diseases, etc.)</p>	<p>infrastructures are built, partnerships with organizations are made to formulate plans that involve sustainable materials and systems. In 2019, SMC pilot-tested a road construction using materials mixed with plastic waste.⁷</p> <p>Expansion of urbanization</p> <p>With the growing density in Metro Manila, there is a need to divert industrialization from central business districts. This may be solved through the connectivity provided by the transportation systems developed by SMC to and from untapped provincial centers. The aim is to promote and stimulate business activities in these cities as a way to ultimately solve traffic congestion and increase overall economic productivity in the country.</p> <p>Traffic Management Task force for road projects</p> <p>During construction, negative impact to traffic flow is mitigated through a traffic management task force together with relevant government organizations. The task force is responsible for planning alternate routes and on-ground management of vehicle traffic.</p>
--	--	--

Applicable SDG Goals and Targets to Contribution:

- SDG Contribution: Goal # 8 – Decent Work and Economic Growth
 - 8.2: *Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labor-intensive sectors*
- SDG Contribution: Goal # 9 – Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
 - 9.1: *Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all*
 - 9.4: *By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound*

⁷ News article: <https://www.sanmiguel.com.ph/article/san-miguel-corporation-debuts-phs-first-recycled-plastics-road>

technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

- SDG Contribution: Goal # 11 – Sustainable Cities and Communities
 - *11.2: By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport*

Product Category: Water

- In 2019, the Bulacan Bulk Water project provides an average volume per day of 92,070,000 Liters to 3,528 households.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
Access to safe, potable and affordable water In 2019, SMC has provided access to potable water for 12 of the 24 municipalities	Health and safety risk If contamination occurs, there are possible health and safety risks to employees, consumers, and host communities.	Proper and regular sanitation and maintenance of facilities Regular maintenance is being done to ensure that facilities are in good condition. Sanitation and proper treatment are also done to minimize contamination of water going to customers. Quality Tests Water quality tests are conducted at several sampling points from pipes along the system. Water is tested for the presence of bacteria and heavy metals that could adversely affect human health.

Applicable SDG Goals and Targets to Contribution:

- SDG Contribution: Goal # 6 – Clean Water and Sanitation
 - *6.1: By 2030, achieve universal and equitable access to safe and affordable drinking water for all*
 - *6.5: By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate*

Packaging Business

Product Category: Glass, plastics, metals, flexibles, PET, molds, corrugated sheets

- Through the packaging business, 40% and 30% of the input materials for its glass and rigid plastic products are recycled materials.
- For its metal and paper businesses, while not recycling directly, the company helps in the collection of scrap and other usable materials and sends these items to groups that can recycle them.

Contribution to Society	Potential Negative Impact of Contribution	Management Approach to Potential Negative Impacts
<p>Technology and Productivity for sustainability</p> <p>SMC manufactures packaging materials for food, pharmaceutical, chemical, beverage, and personal care products. Total packaging solutions are also provided to manufacturers and businesses, helping them choose the right fit for their product. Methods that would increase recyclability of the packaging materials are also developed.</p>	<p>Waste Generation</p> <p>SMC recognizes the potential damage of packaging materials to the environment (i.e. solid waste) which are completely out of its control when it reaches consumers. Though it continuously strives to reach 100% recyclability, most materials produced are non-biodegradable and often non-recyclable.</p> <p>SMC also recognizes and tries to mitigate its impacts during resource-intensive production where raw materials may be unsustainable, and air pollution may be emitted from its machines.</p>	<p>Collection system initiatives</p> <p>Other than recycling and reusing initiatives within manufacturing plants, SMC also aims to establish systems wherein end consumers participate in closing the loop. Starting with beverage packaging, it currently implements a returnable glass bottle system where used bottles are processed, sanitized, and reused for distribution. Not all recyclable bottles are collected after use. Thus, there is an opportunity to increase consumer participation through additional collection centers or the roll-out of innovative new programs.</p> <p>Biodegradable Plastics</p> <p>In partnership with Philippine Bioresins Corp., SMC is set to shift to certified biodegradable plastic product packaging.⁸ This is one of the many initiatives it plans to implement as it moves towards sustainability, specifically as a major player in the packaging industry.</p> <p>Continuous research on Recyclability of packaging materials</p> <p>In partnership with its state-of-the-art facilities in Malaysia, SMYPC conducts research to further the recyclability of the packaging it produces.</p>

⁸ News article: https://www.philstar.com/business/2019/11/12/1967925/san-miguel-corp-set-shift-biodegradable-plastic-packages?fbclid=IwAR0Xy5Q6brCw2v0OLVN4pt2CgNcNskHeqn3-5dD4mNswP_QlxmTjG9k2dfQ

<p>Increased shelf life</p> <p>The Packaging business has a role in food safety and security as its products are designed to preserve food longer and ensure products are safe for consumption. The development and promotion of safe, sustainable, and cost-efficient materials is one of its most important contributions to the SDGs. It enables the access to food and beverage through filling and total product logistics services.</p>	<p>Health and safety risks of packaging</p> <p>Some products that divert from expected standards of quality may be bought by consumers. If not properly regulated and maintained, materials used may impact the integrity of the products it contains.</p>	<p>Quality Assurance Protocols</p> <p>SMYPC plants complies to high standards and government requirements (FSSC 22000) and ISO900. All products are processed in compliance to intensive quality assurance tests. Products are also labelled with certification of inspection to assure customers that the products delivered are of high quality</p>
--	---	--

Applicable SDG Goals and Targets to Contribution:

- SDG Contribution: Goal # 12 – Responsible Consumption and production
 - 12.3: *By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses*
 - 12.5: *By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse*