SAN MIGUEL CORPORATION

SEPARATE FINANCIAL STATEMENTS
December 31, 2020 and 2019

With Independent Auditors' Report

SAN MIGUEL CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR SEPARATE FINANCIAL STATEMENTS

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

In preparing the separate 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 separate 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 separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

RAMON S. ANG
Vice Chairman, President and
Chief Operating Officer

FERDINAND K. CONSTANTINO
Senior Vice President Chief Operating
Chief Finance Officer / Treasurer

ACKNOWLEDGEMENT

REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S.S.

Before me, a Notary Public for and in Mandaluyong City, this 11th day of March 2021, personally appeared the following:

Name	Passport No.	Date / Place of Issue
Ramon S. Ang	P2247867B	05/22/2019/DFA-Manila
Ferdinand K. Constantino	P0341304A	09/22/16/DFA-NCR East

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

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

Doc. No.: 459;
Page No.: 93;
Book No.: VII;
Series of 2021.

PAULA KATHERINA A. GAN – NOTARY PUBLIC – ROLL NO. 55988 – MANDALUYONG CITY, PHILS.

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

From: eafs@bir.gov.ph
Sent: April 15, 2021 12:08 PM
To: Roland G. Nethercott
Cc: Roland G. Nethercott
Subject: Your BIR AFS eSubmission uploads were received

Hi SAN MIGUEL CORPORATION,

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

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the separate financial statements of San Miguel Corporation (the Company), which comprise the separate statements of financial position as at December 31, 2020 and 2019, and the separate statements of income, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2020 and 2019, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended, 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 Separate Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the separate 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.

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

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

In preparing the separate 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.

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 Company'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 Company'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 separate 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 Company to cease to continue as a going concern.

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

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.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

The supplementary information required for purposes of filing with the Bureau of Internal Revenue is presented by the management of San Miguel Corporation in a separate schedule. Such supplementary information is not a required part of the separate financial statements. Our opinion on the separate financial statements is not affected by the presentation of the supplementary information in a separate schedule.

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

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-031-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8533922
Issued January 4, 2021 at Makati City

March 22, 2021
Makati City, Metro Manila

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226

Telephone	+63 (2) 8885 7000
Fax	+63 (2) 8894 1985
Internet	www.home.kpmg/ph
Email	ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SEPARATE FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE

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

We have audited the accompanying separate financial statements of San Miguel Corporation (the Company) as at and for the year ended December 31, 2020, on which we have rendered our report thereon dated March 22, 2021.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

R.G. MANABAT & CO.

DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years
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March 22, 2021
Makati City, Metro Manila

SAN MIGUEL CORPORATION

SEPARATE STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 AND 2019

(In Millions)

	Note	**2020**	2019
ASSETS			
Current Assets			
Cash and cash equivalents	*4, 5, 28, 29*	**P135,816**	P88,350
Receivables - net	*4, 6, 22, 24, 28, 29*	**88,562**	87,386
Prepaid expenses and other current assets	*22, 28, 29*	**5,411**	3,355
Total Current Assets		**229,789**	179,091
Noncurrent Assets			
Investments and advances - net	*4, 7, 28, 29*	**680,565**	643,849
Property, plant and equipment - net	*4, 8*	**1,162**	1,209
Right-of-use assets - net	*4, 9*	**519**	594
Investment property - net	*4, 10*	**790**	795
Deferred tax assets - net	*4, 15*	**4,102**	4,713
Other noncurrent assets - net	*4, 11, 22, 24, 28, 29*	**7,538**	8,348
Total Noncurrent Assets		**694,676**	659,508
		P924,465	P838,599
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	*12, 20, 27, 28, 29*	**P23,950**	P44,750
Accounts payable and accrued expenses	*13, 22, 23, 27, 28, 29*	**11,131**	11,073
Income and other taxes payable	*15*	**707**	598
Subscriptions payable	*7, 22, 28, 29*	**2,710**	5,515
Dividends payable	*22, 25, 27*	**3,291**	3,394
Current maturities of long-term debt - net of debt issue costs	*14, 27, 28, 29*	**159**	14,150
Total Current Liabilities		**41,948**	79,480
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	*14, 27, 28, 29*	**261,223**	174,470
Other noncurrent liabilities	*22, 23, 27, 28, 29*	**2,414**	1,704
Total Noncurrent Liabilities		**263,637**	176,174
		305,585	255,654
Equity			
Capital stock - common	*16*	**16,443**	16,443
Capital stock - preferred	*16*	**10,187**	10,187
Additional paid-in capital	*16*	**177,719**	177,938
Capital securities	*16*	**33,031**	-
Equity reserve	*7, 24, 29*	**1,052**	1,246
Retained earnings	*16, 25*	**490,594**	493,414
Treasury stock	*16*	**(110,146)**	(116,283)
Total Equity		**618,880**	582,945
		P924,465	P838,599

See Notes to the Separate Financial Statements.

SAN MIGUEL CORPORATION
SEPARATE STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Millions, Except Per Share Data)

	Note	**2020**	2019
REVENUES			
Dividend income	*7*	**P13,000**	P14,099
Sale of services		**4,436**	4,219
Interest income	*21*	**3,229**	4,821
Rent income	*4, 10, 23*	**171**	182
Gain on foreign exchange - net	*28*	**1,912**	204
Gain on sale of investments and others	*7, 31*	**4,666**	-
		27,414	23,525
EXPENSES			
Costs and expenses	*17, 18, 19, 23*	**5,270**	5,401
Interest expense and other financing charges	*12, 14, 20, 23*	**12,618**	12,656
Loss (gain) on derivatives - net	*29*	**1,752**	(178)
		19,640	17,879
INCOME BEFORE INCOME TAX		**7,774**	5,646
INCOME TAX EXPENSE	*15*	**816**	2,623
NET INCOME		**P6,958**	P3,023
Basic/Diluted Loss Per Common Share	*26*	**(P0.01)**	(P1.75)

See Notes to the Separate Financial Statements.

SAN MIGUEL CORPORATION
SEPARATE STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Millions)

	Note	2020	2019
NET INCOME		**P6,958**	P3,023
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified to profit or loss			
Equity reserve for retirement plan	*24*	**83**	(351)
Income tax benefit (expense)	*15*	**(25)**	105
		58	(246)
Items that may be reclassified to profit or loss			
Loss on cash flow hedges	*29*	**(116)**	(433)
Income tax benefit	*15*	**35**	130
		(81)	(303)
Net loss on financial assets at fair value through other comprehensive income	*7*	**(170)**	(44)
Income tax expense	*15*	**(1)**	(7)
		(171)	(51)
OTHER COMPREHENSIVE LOSS - Net of tax		**(194)**	(600)
TOTAL COMPREHENSIVE INCOME - Net of tax		**P6,764**	P2,423

See Notes to the Separate Financial Statements.

SAN MIGUEL CORPORATION

SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Millions)

		Capital Stock			Capital Securities		Equity Reserve				Treasury Stock		
	Note	Common	Preferred	Additional Paid-in Capital	Senior Perpetual Capital Securities	Redeemable Perpetual Securities	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Retained Earnings	Common	Preferred	Total Equity
As at January 1, 2020		**P16,443**	**P10,187**	**P177,938**	**P -**	**P -**	**P1,095**	**(P422)**	**P573**	**P493,414**	**(P67,093)**	**(P49,190)**	**P582,945**
Equity reserve for retirement plan	*24*	**-**	**-**	**-**	**-**	**-**	**58**	**-**	**-**	**-**	**-**	**-**	**58**
Net loss on cash flows hedges	*29*	**-**	**-**	**-**	**-**	**-**	**-**	**(81)**	**-**	**-**	**-**	**-**	**(81)**
Net loss on financial assets at fair value through other comprehensive income	7	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(171)**	**-**	**-**	**-**	**(171)**
Other comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**58**	**(81)**	**(171)**	**-**	**-**	**-**	**(194)**
Net income		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,958**	**-**	**-**	**6,958**
Total comprehensive income (loss)		**-**	**-**	**-**	**-**	**-**	**58**	**(81)**	**(171)**	**6,958**	**-**	**-**	**6,764**
Issuance of senior perpetual capital securities	*16*	**-**	**-**	**-**	**24,211**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,211**
Issuance of redeemable perpetual securities	*16*	**-**	**-**	**-**	**-**	**19,522**	**-**	**-**	**-**	**-**	**-**	**-**	**19,522**
Purchase and cancellation of redeemable perpetual securities	*16*	**-**	**-**	**-**	**-**	**(10,702)**	**-**	**-**	**-**	**(108)**	**-**	**-**	**(10,810)**
Re-issuance of treasury shares - preferred	*16*	**-**	**-**	**(219)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33,793**	**33,574**
Redemption of Series "1" and Series "2-D" preferred shares	*16*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,656)**	**(27,656)**
Cash dividends and distributions:	*25*												
Common		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,337)**	**-**	**-**	**(3,337)**
Preferred	*26*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,052)**	**-**	**-**	**(6,052)**
Redeemable perpetual securities	*26*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(281)**	**-**	**-**	**(281)**
As at December 31, 2020		**P16,443**	**P10,187**	**P177,719**	**P24,211**	**P8,820**	**P1,153**	**(P503)**	**P402**	**P490,594**	**(P67,093)**	**(P43,053)**	**P618,880**
As at January 1, 2019		P16,443	P10,187	P177,938	P -	P -	P1,341	(P119)	P624	P500,915	(P67,093)	(P42,408)	P597,828
Equity reserve for retirement plan	*24*	-	-	-	-	-	(246)	-	-	-	-	-	(246)
Net loss on cash flows hedges	*29*	-	-	-	-	-	-	(303)	-	-	-	-	(303)
Net loss on financial assets at fair value through other comprehensive income	7	-	-	-	-	-	-	-	(51)	-	-	-	(51)
Other comprehensive loss		-	-	-	-	-	(246)	(303)	(51)	-	-	-	(600)
Net income		-	-	-	-	-	-	-	-	3,023	-	-	3,023
Total comprehensive income (loss)		-	-	-	-	-	(246)	(303)	(51)	3,023	-	-	2,423
Redemption of Series "2B" preferred shares	*16*	-	-	-	-	-	-	-	-	-	-	(6,782)	(6,782)
Cash dividends:	*25*												
Common		-	-	-	-	-	-	-	-	(3,337)	-	-	(3,337)
Preferred	*26*	-	-	-	-	-	-	-	-	(7,187)	-	-	(7,187)
As at December 31, 2019		P16,443	P10,187	P177,938	P -	P -	P1,095	(P422)	P573	P493,414	(P67,093)	(P49,190)	P582,945

See Notes to the Separate Financial Statements.

SAN MIGUEL CORPORATION
SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In Millions)

	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		**P7,774**	P5,646
Adjustments for:			
Interest expense and other financing charges	*12, 14, 20, 23*	**12,618**	12,656
Depreciation, amortization and others - net	*18, 24*	**331**	367
Unrealized gain on foreign exchange - net		**(2,838)**	(690)
Interest income	*21*	**(3,229)**	(4,821)
Gain on sale of investments and others	*7, 31*	**(4,666)**	-
Dividend income		**(13,000)**	(14,099)
Operating loss before working capital changes		**(3,010)**	(941)
Changes in noncash current assets, certain current liabilities and others	*27*	**(1,170)**	349
Cash used in operations		**(4,180)**	(592)
Dividend received		**13,000**	14,452
Interest expense and other financing charges paid		**(11,867)**	(11,998)
Income taxes paid		**(197)**	(289)
Net cash flows provided by (used in) operating activities		**(3,244)**	1,573
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments and advances	*7*	**(36,837)**	(30,942)
Property and equipment	*8*	**(40)**	(128)
Investment property	*10*	**(4)**	-
Interest received		**3,151**	4,336
Proceeds from sale of investments and property and equipment	*7, 8, 10*	**1**	4
Increase in other noncurrent assets		**(722)**	(1,178)
Net cash flows used in investing activities		**(34,451)**	(27,908)

Forward

	Note	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Short-term borrowings	*27*	**P428,400**	P539,424
Long-term borrowings	*27*	**98,864**	28,121
Payments of:			
Short-term borrowings	*27*	**(449,200)**	(528,855)
Long-term borrowings	*27*	**(14,148)**	(10,456)
Lease liabilities	*27*	**(52)**	(45)
Cash dividends and distributions paid	*25, 27*	**(9,773)**	(10,587)
Proceeds from issuance of senior perpetual capital securities	*16*	**24,211**	-
Proceeds from the issuance of redeemable perpetual securities - net	*16*	**8,712**	-
Proceeds from re-issuance of treasury shares	*16*	**33,588**	-
Redemption of Series “1” and Series “2-D” preferred shares	*16*	**(27,656)**	-
Redemption of Series “2B” preferred shares	*16*	**-**	(6,782)
Net cash flows provided by financing activities		**92,946**	10,820
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**(7,785)**	(3,041)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**47,466**	(18,556)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*5*	**88,350**	106,906
CASH AND CASH EQUIVALENTS AT END OF YEAR	*5*	**P135,816**	P88,350

See Notes to the Separate Financial Statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

San Miguel Corporation (SMC or the Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the 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 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 Company's Board of Directors (BOD) and stockholders, respectively.

The Company has a corporate life of 50 years pursuant to its articles of incorporation. However, under the Revised Corporation Code of the Philippines, the Company shall have a perpetual corporate life.

The 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 Company, through its subsidiaries, 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 Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

2. Basis of Preparation

Statement of Compliance

The accompanying separate 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 separate financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 11, 2021.

Basis of Measurement
The separate financial statements of the Company have been prepared on a historical cost basis except for the following items which are measured on an alternative basis at each reporting date:

Items	Measurement Basis
Derivative financial instruments	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

The Company also prepares and issues consolidated financial statements for the same period in which it consolidates its investment in shares of stock of subsidiaries and recognizes its equity in net earnings of its associates and joint ventures. Such consolidated financial statements provide information about the economic activities of the Company and its subsidiaries (collectively referred to as the "Group") of which SMC is the parent company and its interests in associates and joint ventures.

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

3. Significant Accounting Policies

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

Adoption of Amended Standards and Framework

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

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

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

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

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of material. The amended definition of material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, *Financial Instruments,* PAS 39*, Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*). The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:

  - *The Highly Probable Requirement*. When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

  - *Prospective Assessments*. When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

  - *PAS 39 Retrospective Assessment*. An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

  - *Separately Identifiable Risk Components*. For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash 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 Company has early adopted the below PFRS effective June 1, 2020 and accordingly, changed its accounting policy:

- Coronavirus Disease 2019 (COVID-19)-Related Rent Concessions (Amendment to PFRS 16, *Leases*). The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:

  - the revised consideration is substantially the same or less than the original consideration;

  - the reduction in lease payments relates to payments due on or before June 30, 2021; and

  - no other substantive changes have been made to the terms of the lease.

  The Company has applied the amendment retrospectively.

The adoption of the amended standards and framework did not have an effect on the separate financial statements.

Standards Not Yet Adopted

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

The Company will adopt the following amended standards and framework on the respective effective dates:

- Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, *Insurance Contracts* and PFRS 16). To ensure that separate financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:

    - *Practical Expedient for Particular Changes to Contractual Cash Flows*. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.

    - *Relief from Specific Hedge Accounting Requirements*. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.

    - *Disclosure Requirements*. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

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

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

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

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

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

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

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

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

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

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

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

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

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1). This amended standard is not expected to have a significant effect on the financial statements.

  The amendments to PAS 1 promotes consistency in the application and clarify the requirements on determining whether a liability is current or noncurrent. The amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and

  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

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

Current versus Noncurrent Classification

The Company presents assets and liabilities in the separate 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 Company 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 Company recognizes a financial asset or a financial liability in the separate 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 Company 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 Company for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Company 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 Company 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 Company 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 Company'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 Company considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. For purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as 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 Company 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 Company'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 whose objective is to hold 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 separate statements of income when the financial asset is derecognized, modified or impaired.

The Company's cash and cash equivalents and receivables are included under this category (Notes 5, 6, 11, 22, 28, and 29).

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

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

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the separate 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. When investment in equity instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the separate statements of changes in equity are never reclassified to the separate statements of income.

The Company's investments in equity instruments at FVOCI are classified under this category (Notes 7, 28 and 29).

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 Company 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 Company carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in the separate statements of income as incurred. Changes in fair value and realized gains or losses are recognized in the separate 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 separate statements of income. Any dividend income from investment in equity instrument is recognized in the separate 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 Company's derivative assets not designated as cash flow hedge are classified under this category (Notes 22, 28 and 29).

<u>Financial Liabilities</u>
The Company 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 Company carries financial liabilities at FVPL using their fair values and reports fair value changes in the separate 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 separate statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the separate statements of income.

The Company's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 13, 22, 28 and 29).

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 separate statements of income. Gains and losses are recognized in the separate 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 separate statements of income.

The Company's liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, subscriptions payable, long-term debt and lease liabilities are included under this category (Notes 12, 13, 14, 22, 23, 28 and 29).

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 Company 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 Company 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 Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company 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 Company 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 Company 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 separate statements of income.

Impairment of Financial Assets

The Company recognizes allowance for expected credit loss (ECL) on financial assets at amortized cost.

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company 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 Company 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 Company 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 Company’s historical experience and informed credit assessment and including forward-looking information.

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

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

- significant financial difficulty of the issuer or the borrower;

- a breach of contract, such as a default or past due event;

- the restructuring of a financial asset by the Company on terms that the Company would not consider otherwise;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

The Company 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 Company 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 Company 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 Company'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 separate 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 Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the separate 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 Company 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 separate statements of income.

Freestanding Derivatives

The Company 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 Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The Company 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 separate 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 separate statements of income.

The Company 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 separate statements of income, either over the period of the hedge if the hedge is time related, or when the hedged transaction affects the separate 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 separate statements of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the separate 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 separate statements of income as a reclassification adjustment in the same period or periods as the hedged cash flows affect the separate 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 separate statements of income.

The Company has derivatives accounted for as a cash flow hedge as at December 31, 2020 and 2019 (Note 29).

Embedded Derivatives

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

An embedded derivative is separated from the host contract and accounted for as a derivative 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 Company has not bifurcated any embedded derivatives as at December 31, 2020 and 2019.

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 separate 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.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Investments in Shares of Stock of Subsidiaries

The Company's investments in shares of stock of subsidiaries are accounted for under the cost method as provided for under PAS 27, *Separate Financial Statements*. The investments are carried in the separate statements of financial position at cost less any impairment in value. The Company recognizes dividend from subsidiaries in the separate statements of income when its right to receive the dividend is established.

A subsidiary is an entity controlled by the Company. The Company 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.

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 that 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 of 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 Company 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
Equipment, furniture and fixtures	2 - 40
Leasehold improvements	5 - 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 separate statements of income in the period of retirement and disposal.

<u>Leases</u>
At inception of a contract, the Company 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, the Company assesses whether, throughout the period of use:

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

- the Company has the right to direct the use of the asset.

As a Lessee
The Company 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. Buildings and improvements are depreciated over 10 years.

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 Company's incremental borrowing rate. Generally, the Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 changes 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 Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases (i.e., leases 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 Company recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

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

As a Lessor
The Company determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company 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 Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company 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 Company applies the recognition exemption, it classifies the sublease as an operating lease.

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

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

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

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

	Number of Years
Land and land improvements	5 - 50 or term of the lease, whichever is shorter
Buildings and improvements	2 - 50
Machinery and equipment	3 - 40

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 separate 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 Company as an owner-occupied property becomes an investment property, the Company 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. 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 separate 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 separate statements of income consistent with the function of the intangible asset.

Amortization of computer software and licenses is computed using the straight-line method over the estimated useful life of two to eight years.

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 separate statements of income when the asset is derecognized.

Impairment of Non-financial Assets
The carrying amounts of investments and advances (excluding financial assets at FVOCI), property, plant and equipment, right-of-use of assets, investment property, and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 separate 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 separate 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.

Fair Value Measurements
The Company 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 Company.

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 Company 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 separate 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 separate financial statements on a recurring basis, the Company 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 Company 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.

<u>Provisions</u>
Provisions are recognized when: (a) the Company 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.

<u>Capital Stock and Additional Paid-in Capital</u>
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 Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the 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 separate 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 Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Capital Securities
Redeemable perpetual securities (RPS) and senior perpetual capital securities (SPCS) are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

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

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

Treasury Shares
Own equity instruments which are reacquired are carried at cost and deducted from equity. No gain or loss is recognized on the purchase, sale, reissuance or cancellation of the 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 Company 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 Company 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 Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company assesses its revenue arrangements to determine if it is acting as principal or agent. The Company 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 Services
Revenue from sale of services is recognized over time as the related services are rendered. Invoices are issued on a monthly basis and are usually payable within a 30-day period.

Revenue from Other Sources
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 Company's right to receive the payment is established.

Rent Income. Rent income 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 Company disposes of its investment in shares of stock of a subsidiary. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount.

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

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

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

<u>Employee Benefits</u>
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 Company 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 separate 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 separate 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 separate 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 separate statements of income. The Company recognizes gains and losses on the settlement of a defined benefit retirement plan when the settlement occurs.

<u>Foreign Currency</u>

Foreign Currency Translations

Transactions in foreign currencies are initially recorded in the functional currency of the Company 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 separate statements of income, except for differences arising on the translation of financial assets at FVOCI or qualifying cash flow hedges, which are recognized in other comprehensive income.

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 Company 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, 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, 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 Company 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 separate 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 separate statements of financial position.

Related Parties

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

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period, net of dividends on preferred shares and distributions to holders of RPS and SPCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

Contingencies

Contingent liabilities are not recognized in the separate financial statements. They are disclosed in the notes to the separate financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the separate financial statements but are disclosed in the notes to the separate 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 Company's financial position at the reporting date (adjusting events) are reflected in the separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the separate 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 separate 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 on 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.

<u>Judgments</u>
In the process of applying the accounting policies, the Company has made the following judgments, apart from those involving estimations, which have an effect on the amounts recognized in the separate financial statements:

Determining whether a Contract Contains a Lease. The Company uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Company 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.

Operating Lease Commitments - Company as Lessor. The Company has entered into various lease agreements as a lessor. The Company 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 separate statements of income amounted to P171 and P182 in 2020 and 2019, respectively (Notes 10 and 23).

Determining the Lease Term of Contracts with Renewal Options - Company as Lessee. The Company 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 Company has several lease contracts that include extension options. At lease commencement date, the Company 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 Company 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. The Company 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 Company 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 Company 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 Company 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 Company's lease liabilities amounted to P596 and P648 as at December 31, 2020 and 2019, respectively (Notes 13, 23, 27, 28 and 29).

Adequacy of Tax Liabilities. The Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company 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 Company 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 Company exercises judgments in classifying financial instruments, 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 separate statements of financial position.

The Company 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 29.

Contingencies. The Company is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Company. The Company'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 Company 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 31).

<u>Estimates and Assumptions</u>

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

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

The Company has assessed that the forward-looking default rate component of its ECL is not material because substantial amounts of 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 Company from its receivables.

No receivables were written off as at December 31, 2020 and 2019 (Note 6). The allowance for impairment losses on receivables amounted to P7,269 as at December 31, 2020 and 2019. The carrying amount of receivables amounted to P88,562 and P87,386 as at December 31, 2020 and 2019, respectively (Note 6).

Assessment of ECL on Other Financial Assets at Amortized Cost. The Company 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 Company 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 Company 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 Company 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 Company only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2020 and 2019. The carrying amounts of other financial assets at amortized cost are as follows:

	Note	**2020**	2019
Other Financial Assets at Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	*5, 28*	**P135,812**	P88,346
Noncurrent receivables - net (included under "Other noncurrent assets" account)	*11, 28*	**3,864**	3,048

The allowance for impairment losses on noncurrent receivables (included under "Other noncurrent assets" account in the separate statements of financial position) amounted to P253 as at December 31, 2020 and 2019 (Note 11).

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

The Company 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 Company 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 Company 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 7, 10, 24 and 29.

Estimated Useful Lives of Property, Plant and Equipment, Right-of-use Assets and Investment Property. The Company estimates the useful lives of property, plant and equipment, right-of-use assets and investment property 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 and investment property 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 and investment property 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 and investment property would increase the recorded costs and expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P1,162 and P1,209 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P1,691 and P1,609 as at December 31, 2020 and 2019, respectively (Note 8).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P519 and P594 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P149 and P74 as at December 31, 2020 and 2019, respectively (Note 9).

Investment property, net of accumulated depreciation and amortization amounted to P790 and P795 as at December 31, 2020 and 2019, respectively. Accumulated depreciation and amortization of investment property amounted to P632 and P623 as at December 31, 2020 and 2019, respectively (Note 10).

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 Company.

Intangible assets with finite useful lives amounted to P108 and P194 as at December 31, 2020 and 2019, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P526 and P508 as at December 31, 2020 and 2019, respectively (Note 11).

Realizability of Deferred Tax Assets. The Company 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 Company's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P4,102 and P4,713 as at December 31, 2020 and 2019, respectively (Note 15).

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 and intangible 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 separate 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.

The Company assessed that its property, plant and equipment, right-of-use assets, investment property and intangible assets with finite useful lives are not impaired. Accumulated impairment losses on investments and advances (excluding financial assets at FVOCI) amounted to P2,633 as at December 31, 2020 and 2019 (Note 7).

The combined carrying amounts of investments and advances (excluding financial assets at FVOCI), property, plant and equipment, right-of-use assets, investment property and intangible assets with finite useful lives amounted to P596,095 and P570,833 as at December 31, 2020 and 2019, respectively (Notes 7, 8, 9, 10 and 11).

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 24 to the separate financial statements and include discount rate and salary increase rate.

The Company 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 Company 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 Company are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Company.

The present value of defined benefit retirement obligation amounted to P2,204 and P3,056 as at December 31, 2020 and 2019, respectively (Note 24).

Asset Retirement Obligation. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Company determined that there are no ARO as at December 31, 2020 and 2019.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	Note	**2020**	2019
Cash in banks and on hand		**P45,790**	P4,539
Short-term investments		**90,026**	83,811
	4, 28, 29	**P135,816**	P88,350

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 Company and earn interest at short-term investment rates (Note 21).

6. Receivables

Receivables consist of:

	Note	**2020**	2019
Amounts owed by related parties	*22, 24*	**P74,308**	P73,419
Non-trade receivables		**21,523**	21,236
		95,831	94,655
Less allowance for impairment losses	*4*	**7,269**	7,269
	4, 28, 29	**P88,562**	P87,386

Non-trade receivables include interest receivable and security deposits.

Receivables are generally collectible on demand.

There were no movements in the allowance for impairment losses in 2020 and 2019.

7. Investments and Advances

Investments and advances consist of:

	Note	2020	2019
Investments in shares of stock of subsidiaries	*4*	**P581,889**	P565,517
Financial assets at FVOCI	*28, 29*	**87,049**	75,808
Advances for investment	*4*	**14,260**	5,157
		683,198	646,482
Less allowance for impairment losses	*4*	**2,633**	2,633
		P680,565	P643,849

There were no movements in the allowance for impairment losses in 2020 and 2019.

The allowance for impairment losses on investments and advances amounted to P2,633 as at December 31, 2020 and 2019.

The carrying amounts of investments in shares of stock of subsidiaries are as follows:

		2020		2019	
	Country of Incorporation	**Effective Percentage of Ownership**	**Amount**	Effective Percentage of Ownership	Amount
Food and Beverage Business					
San Miguel Food and Beverage, Inc. (SMFB), formerly San Miguel Pure Foods Company Inc. (SMPFC)*	Philippines	**88.76**	**P342,104**	88.76	P342,104
Ginebra San Miguel Inc. (GSMI)**	Philippines	**10.27**	**1,000**	10.27	1,000
Infrastructure Business					
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC)	Philippines	**100.00**	**106,750**	100.00	106,750
SMC Infra Resources Inc.	Philippines	**100.00**	**585**	100.00	585
Cement Business					
San Miguel Equity Investments Inc. (SMEII)	Philippines	**100.00**	**26,212**	100.00	21,617
Real Estate Business					
San Miguel Properties, Inc. (SMPI)	Philippines	**99.94**	**20,939**	99.74	16,111
Davana Heights Development Corporation (DHDC)	Philippines	**100.00**	**3,721**	100.00	3,540
Fuel and Oil Business					
Petron Corporation (Petron)	Philippines	**68.26**	**15,260**	68.26	15,260
SEA Refinery Corporation (SRC)	Philippines	**100.00**	**1,921**	100.00	1,921
Packaging Business					
San Miguel Yamamura Packaging Corporation (SMYPC)	Philippines	**65.00**	**12,095**	65.00	7,922
Mindanao Corrugated Fireboard, Inc.	Philippines	**100.00**	**636**	100.00	636
San Miguel Yamamura Asia Corp (SMYAC)	Philippines	**-**	**-**	65.00	1,320
Energy Business					
SMC Global Power Holdings Corp. (SMC Global)	Philippines	**100.00**	**4,570**	100.00	4,570
Others					
San Miguel International Limited (SMIL) and San Miguel Holidings Limited (SMHL)	British Virgin Islands (BVI)	**100.00**	**20,328**	100.00	19,113
Silvertides Holdings Corporation (SHC)	Philippines	**100.00**	**3,901**	100.00	3,221
SMC Shipping and Lighterage Corporation (SMCSLC)	Philippines	**70.00**	**3,870**	70.00	3,870
SMC Asia Car Distributors Corp. (SMCACDC)	Philippines	**65.00**	**3,825**	65.00	3,825
Deity Holdings Corporation (DHC)	Philippines	**98.44**	**2,810**	98.39	2,009
San Miguel Intergrated Logistics Services, Inc. (SMILSI)	Philippines	**100.00**	**1,527**	100.00	1,519
SMC Equivest Corporation (SMCEC)	Philippines	**100.00**	**1,113**	100.00	1,113
Challenger Aero Air Corp. (CAAC)	Philippines	**100.00**	**949**	100.00	409
World Summit Holdings Corporation (WHC)	Philippines	**100.00**	**850**	100.00	850
Archen Technologies, Inc.	Philippines	**100.00**	**300**	100.00	300
Others - net	Philippines		**6,623**	-	5,952
			581,889		565,517
Less allowance for impairment losses on investment in shares of stock of subsidiaries			**2,633**		2,633
			P579,256		P562,884

**Investment includes 4,242,549,130 common shares with par value of P1.00 per share in SMFB resulting from the tax free exchange of Investment in San Miguel Brewery Inc. (SMB) and GSMI covered by SMB Stock Certificate Nos. 0024, 02026, 03556 and 03557 and GSMI Stock Certificate Nos. 24, 012069 and 052567 which were acquired for the total cost of P8,076 and which have a total FMV as at the date of exchange amounting to P336,349.*

***The investment in GSMI represents investment in preferred shares, entitled to vote in same manner as the holders of common shares, amounting to P1,000. The holders of preferred shares of GSMI are entitled to participate and receive annual dividends of P1.50 per share which may be cumulative and payable in arrears on December 31 of each year. In addition, the holders of preferred shares of GSMI may receive a special annual dividend equal to the excess of the aggregate dividends paid or to be paid to common shareholders over P1.50 per preferred share per annum. The investment in preferred shares of stock of GSMI were subsequently redeemed on January 4, 2021 (Note 30).*

Investments in Shares of Stock of Subsidiaries

The following are the major developments relating to the Company's investments in shares of stock of subsidiaries:

Infrastructure

- SMHC

  On September 24, 2019, SMHC and the 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 Company paid P16,382, while the balance amounting to P4,265 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2019. The Company fully paid the subscription in 2020.

  On November 27, 2020, the BOD and stockholders of SMHC approved the additional increase in its authorized capital stock from P71,500 divided into 71,500,000 common shares to P91,500 divided into 91,500,000 common shares, both with a par value of P1,000.00 per common share. On the same date, SMHC and the Company executed a Subscription Agreement to subscribe to an additional 10,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P15,000 or P1,500.00 per common share.

  In 2020, the Company paid P6,606 as deposit for future stock subscription presented as "Advances for investment" under "Investments and advances" account in the separate statement of financial position as at December 31, 2020.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 18, 2020 and was approved on January 7, 2021.

Cement

- SMEII

  On various dates in 2020, SMEII and the Company executed Subscription Agreements to subscribe to a total of 3,063,600,000 common shares of SMEII for a total subscription price of P4,595 or P1.50 per share, which was fully paid in 2020.

Real Estate

- SMPI

  On December 23, 2019, SMPI and the Company executed a Subscription Agreement to subscribe to an additional 57,500,000 common shares of SMPI for a total subscription price of P1,150 or P20.00 per common share. The subscription price was fully paid in 2019.

  On various dates in 2020, SMPI and the Company executed Subscription Agreements to subscribe to a total of 241,393,750 common shares of SMPI for a total subscription price of P4,828 or P20.00 per common share. In 2020, the Company paid P4,092, while the balance amounting to P736 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2020.

- DHDC

  On January 8, 2019, DHDC and the Company executed a Subscription Agreement to subscribe to an additional 1,344,950,000 common shares for a total subscription price of P2,690 or P2.00 per common share. The subscription price was fully paid in 2019.

  On May 4 and November 26, 2020, DHDC and the Company executed Subscription Agreements to subscribe to a total of 90,500,000 common shares for a total subscription price of P181 or P2.00 per common share, which was fully paid in 2020.

Packaging

- SMYPC

  On September 19, 2019, the merger was approved by the respective BOD and stockholders of SMYPC and SMYAC. On the same date, the BOD and stockholders of SMYPC 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 Company and SMYPC executed a Subscription Agreement whereby the 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 Company upon the effectivity of the planned merger between SMYPC and SMYAC on March 1, 2020.

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

  On March 1, 2020, the effective date of the merger, SMYPC issued 3,901,011 and 2,100,544 common shares to the Company and Nihon Yamamura Glass Co., Ltd. (NYG), respectively, for a total amount of P6,002 as consideration for the net assets of SMYAC pursuant to the terms of the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of SMYPC. With the completion of the merger, SMC and NYG retained their respective ownership in SMYPC of 65% and 35%, respectively.

  The investment in 3,901,011 common shares of stock in SMYPC resulting from the exchange of investment in SMYAC were acquired for a total cost of P1,320 and a total fair market value amounting to P4,173 as of the date of exchange, pursuant to the merger between SMYAC and SMYPC, with SMYPC as the surviving corporation. The Company recognized a gain of P2,853 from the exchange of shares, presented as part of “Gain on sale of investments and others” account in the separate statements of income.

  On July 7, 2020, the application for a tax-free exchange certification/ruling on the merger was filed with the Bureau of Internal Revenue (BIR) and still pending as at March 11, 2021.

- SMYAC

  On October 23, 2019, the Company executed a Deed of Absolute Sale of Shares 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. As a result of the acquisition, the Company and NYG's equity interest in SMYAC became 65% to 35%, respectively.

Others

- 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 of par value US$10.00 per share and 10,000,000 preferred shares of par value US$10.00 per share to US$700 divided into 5,000,000 common shares of par value US$10.00 per share and 65,000,000 preferred shares of par value 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 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 Company paid US$175 (P9,243), the balance amounting to US$3 (P170) was paid in full in 2019.

  On September 16, 2020, SMHL issued to the Company an additional 2,500,000 preferred shares from the unissued capital stock of SMHL, for a total subscription price of US$25 (P1,215) or US$10.00 per preferred share. In 2019 and 2020, the Company paid a total of US$23 (P1,153). The balance amounting to US$2 (P62) is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2020.

  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.

- SHC

  On June 4, 2018, the BOD and stockholders of SHC resolved and approved to increase its authorized capital stock from P100 divided into 100,000,000 common shares with a par value of P1.00 per common share to P2,500 divided into 2,500,000,000 common shares with a par value of P1.00 per common share.

  On June 29, 2018, SHC and the Company executed a Subscription Agreement whereby the Company subscribed to 1,000,000,000 common shares of SHC at a subscription price of P2.00 per common share or a total subscription amount of P2,000. The Company paid P176 in 2018 as deposit for future stock subscription, while the remaining balance of the subscription price amounting to P1,824 was fully paid by the Company in 2019.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on August 8, 2019 and was approved on August 15, 2019.

On April 25, 2019, SHC and the Company executed a Subscription Agreement to subscribe to 280,125,000 common shares of SHC for a total subscription price of P1,121 or P4.00 per common share. The subscription price was fully paid in 2019.

On various dates in 2020, SHC and the Company executed Subscription Agreements whereby SMC agreed to subscribe to a total of 170,000,000 additional common shares from the unissued capital stock of SHC for a total subscription price of P680 or P4.00 per common share. In 2020, the Company paid a total of P441. The balance amounting to P239 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2020.

- SMCACDC

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMCACDC 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 was filed with the SEC on December 11, 2018 and was approved on January 16, 2019. The 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 Company has subscription payable amounting to P429 as at December 31, 2020 and 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 has no pre-emptive right to any issue of disposition of any stocks of any class of SMCACDC.

- DHC

On various dates in 2019, DHC and the Company executed a Subscription Agreements for the Company to subscribe to a total of 1,004,000 common shares of DHC at a subscription price of P2,008 or P2.00 per common share. The subscription price was fully paid in 2019.

On various dates in 2020, DHC and the Company executed Subscription Agreements whereby SMC agreed to subscribe to a total of 400,500,000 additional common shares from the unissued capital stock of DHC for a total subscription price of P801 or P2.00 per common share. In 2020, the Company paid a total of P520. The balance amounting to P281 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2020.

- SMILSI

  On June 22, 2018, the BOD and stockholders of SMILSI approved the increase in its authorized capital stock from P20 divided into 20,000,000 common shares to P1,020 divided into 1,020,000,000 common shares, both with a par value of P1.00 per common share. On the same date, the 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. In 2018, the Company paid P227 as deposit for future stock subscription, while the remaining balance of the subscription price amounting to P148 was paid by the Company in 2019.

  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.

  On various dates in 2019, SMILSI and the Company executed Subscription Agreements to subscribe to additional 749,353,800 common shares of SMILSI for a total subscription price of P1,124 or P1.50 per common share. The subscription price was fully paid in 2019.

  On January 14, 2020, SMILSI and the Company executed a Subscription Agreement to subscribe to an additional 5,646,200 common shares of SMILSI for a subscription price of P8 or P1.50 per common share. The subscription price was fully paid in 2020.

  On January 14, 2020, the BOD and stockholders of SMILSI approved the additional increase in its authorized capital stock from P1,020 divided into 1,020,000,000 common shares to P4,020 divided into 4,020,000,000 common shares, both with a par value of P1.00 per common share. On the same date, the Company in a Subscription Agreement, subscribed to 1,000,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P1,500 or P1.50 per common share.

  On various dates in 2020, SMILSI and the Company executed Subscription Agreements to subscribe to a total of 733,110,500 additional common shares out of the proposed increase in authorized capital stock of SMILSI for a total subscription price of P1,100 or P1.50 per common share.

  In 2020, the Company paid P2,600 as deposit for future stock subscription presented as “Advances for investment” under “Investments and advances” account in the separate statement of financial position as at December 31, 2020.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 29, 2020 and was approved on January 6, 2021.

- SMCEC

  On December 10, 2018, the BOD and stockholders of SMCEC approved the increase in its authorized capital stock from P100 divided into 100,000,000 common shares to P1,100 divided into 1,100,000,000 common shares, both with a par value of P1.00 per common share. On the same date, the 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. On December 17, 2018, the Company paid P975 as deposit for future stock subscription presented as “Advances for investment” under “Investments and advances” account in the separate statement of financial position as at December 31, 2018.

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. Consequently, the deposit for future stock subscription amounting to P975 was reclassified to “Investment in subsidiaries” under “Investments and advances” account in the separate statement of financial position as at December 31, 2019.

- CAAC

On April 17, 2019, the BOD and stockholders of CAAC approved the increase in authorized capital stock from P500 divided into 5,000,000 common shares to P1,500 divided into 15,000,000 common shares, both with par value of P100.00 per common share. On the same date, CAAC and the Company executed a Subscription Agreement for the Company to subscribe to 3,600,000 common shares out of the increase in authorized capital stock of CAAC for a total subscription price of P540 or P150.00 per common share. The Company paid P528 in 2019 as deposit for future stock subscription.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on September 10, 2020 and was approved on November 6, 2020. Consequently, the deposit for future stock subscription amounting to P528 was reclassified from “Advances for investment” to “Investment in subsidiaries” both under “Investment and advances” account in the separate statements of financial position as at December 31, 2020, while the remaining balance of the subscription price amounting to P12 was fully paid by the Company in 2020.

- WHC

On December 26, 2018, the BOD and stockholders of WHC resolved and approved to increase its authorized capital stock from P50 divided into 50,000,000 common shares with a par value of P1.00 per common share to P1,000 divided into 1,000,000,000 common shares with a par value of P1.00 per common share.

On December 27, 2018, WHC and the Company executed a Subscription Agreement to subscribe 35,000,000 common shares of WHC for a total subscription price of P35 or P1.00 per common share, of which the Company paid P10. The balance amounting to P25 is presented as part of “Subscription payable” account in the separate statements of financial position as at December 31, 2019 and was fully paid in 2020.

On April 25, 2019, WHC and the Company executed a Subscription Agreement to subscribe to an additional 400,000,000 common shares at a subscription price of P800 or P2.00 per common share.

The application for the Amendment of the Articles of Incorporation of WHC for the increase in its authorized capital stock was filed with the SEC on October 14, 2019 and was approved on October 17, 2019. The subscription price amounting to P800 was fully paid in 2019.

- ArchEn

  On June 28, 2018, the BOD and stockholders of ArchEn approved the increase in its 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 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. In 2018, the Company paid P50 as deposit for future stock subscription subscription presented as “Advances for investment” under “Investments and advances” account in the separate statement of financial position as at December 31, 2018 .

  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. Consequently, the deposit for future stock subscription amounting to P50 was reclassified to “Investment in subsidiaries” under “Investments and advances” account in the separate statements of financial position as at December 31, 2019. The remaining balance of the subscription price amounting to P150 was paid by the Company in 2019.

<u>Financial Assets at FVOCI</u>
Financial assets at FVOCI, amounting to P87,049 and P75,808 as at December 31, 2020 and 2019, respectively, pertain to various investments in shares of stock carried at fair value (Note 4).

Financial assets at FVOCI mainly includes investments in the following:

a. Common and preferred shares of stock of Top Frontier amounting to P35,781 and P35,954 as at December 31, 2020 and 2019, respectively.

   The preferred shares issued by Top Frontier are entitled to preferential dividends at a fixed rate per annum of 3% of the issue price which shall be payable quarterly in arrears and in cash. The dividends on the preferred shares shall be cumulative from and after the issue date of the preferred shares, whether or not in any period the amount thereof is covered by available unrestricted retained earnings. The preferred shares do not carry the right to vote except in the cases expressly provided by law. These are redeemable in whole or in part, at the sole option of the Company, equal to its issue price plus any accrued and unpaid preferential dividends, upon notice to the holders. The preferred shares are entitled to participate and share in the retained earnings remaining after payment of the preferential dividends at the same rate as the common shares.

   Dividend income from the investment in preferred shares of stock of Top Frontier amounted to P1,328 and P1,860 in 2020 and 2019, respectively.

b. RPS of SMC Global amounting to US$650 or P33,794 as at December 31, 2020 and 2019.

   The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. The Company will have the right to receive distribution at 6.25% per annum, payable quarterly in arrears every March 16, June 16, September 16 and December 16 of each year commencing on June 16, 2018. SMC Global has a right to defer this distribution under certain conditions.

   Distributions from the investment in RPS of SMC Global amounted to P2,016 and P2,097 in 2020 and 2019, respectively.

c. Redeemable preferred shares of stock of Carmen Red Ltd. amounting to US$123 or P5,139 as at December 31, 2020 and 2019.

d. RPS of Petron amounting to US$236 or P11,714 and US$6 or P305 as at December 31, 2020 and 2019, respectively.

   The RPS issued by Petron are entitled to distributions as follows:

   - US$6 subscribed on November 27, 2019

     The Company will have the right to receive distribution at 4% per annum, payable quarterly in arrears every November 27, February 27, May 27 and August 27 of each year commencing on February 27, 2020.

   - US$130 subscribed on July 22, 2020

     The Company will have the right to receive distribution at 3.625% per annum, payable quarterly in arrears every March 20, June 22, September 22 and December 22 of each year commencing on September 22, 2020.

   - US$100 subscribed on August 10, 2020.

     The Company will have the right to receive distribution at 3.625% per annum, payable quarterly in arrears every February 20, May 10, August 10 and November 10 of each year commencing on November 10, 2020.

   Distributions from the investment in RPS of Petron amounted to P169 in 2020.

   The RPS are direct, unconditional, unsecured and subordinated capital securities with no fixed redemption date. Petron has a right to defer this distribution under certain conditions.

The carrying amount of the investments approximate their fair value (Note 29).

The methods and assumptions used to measure the fair value of financial assets at FVOCI are disclosed in Notes 3, 4 and 29.

<u>Advances for Investment</u>
Advances for investment pertain to deposits made to certain companies which will be applied against future stock subscription.

8. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
Cost						
January 1, 2019	P1,021	P246	P2,111	P596	P27	P4,001
Additions	-	-	-	-	128	128
Disposals and reclassifications	(26)	-	21	9	(41)	(37)
Derecognition of fully depreciated assets no longer used in business	-	-	(1,274)	-	-	(1,274)
December 31, 2019	995	246	858	605	114	2,818
Additions	-	-	-	-	40	40
Disposals and reclassifications	-	-	37	19	(61)	(5)
December 31, 2020	**995**	**246**	**895**	**624**	**93**	**2,853**
Accumulated Depreciation and Amortization						
January 1, 2019	248	128	1,999	424	-	2,799
Depreciation and amortization	9	4	29	44	-	86
Disposals and reclassifications	-	-	(2)	-	-	(2)
Derecognition of fully depreciated assets no longer used in business	-	-	(1,274)	-	-	(1,274)
December 31, 2019	257	132	752	468	-	1,609
Depreciation and amortization	9	4	32	40	-	85
Disposals and reclassifications	-	-	(2)	(1)	-	(3)
December 31, 2020	**266**	**136**	**782**	**507**	**-**	**1,691**
Carrying Amount						
December 31, 2019	P738	P114	P106	P137	P114	P1,209
December 31, 2020	**P729**	**P110**	**P113**	**P117**	**P93**	**P1,162**

"Equipment, furniture and fixtures" includes machinery, transportation equipment, office equipment , tools and small equipment .

Certain fully depreciated property, plant and equipment with aggregate costs of P1,222 and P1,193 as at December 31, 2020 and 2019, respectively, are still being used in the Company's operations.

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P85 and P86 in 2020 and 2019, respectively (Notes 17 and 18).

9. Right-of-Use Asset

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

	Note	**2020**	2019
Cost			
Balance at beginning and end of year		**P668**	P668
Accumulated Depreciation and Amortization			
Balance at beginning of year		**74**	-
Depreciation and amortization	*18*	**75**	74
Balance at end of year		**149**	74
Carrying Amount		**P519**	P594

The Company recognized right-of-use asset for lease of building and improvements. The lease runs for a period of 10 years. The lease contains an option to renew the lease at the end of the lease term and is 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 Company.

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P75 and P74 in 2020 and 2019, respectively (Notes 17 and 18).

10. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	**Buildings and Improvements**	**Machinery and Equipment**	**Total**
Cost				
January 1, 2019	P565	P408	P420	P1,393
Disposals and reclassifications	25	-	-	25
December 31, 2019	590	408	420	1,418
Additions	-	4	-	4
December 31, 2020	**590**	**412**	**420**	**1,422**
Accumulated Depreciation and Amortization				
January 1, 2019	27	168	419	614
Depreciation and amortization	1	8	-	9
December 31, 2019	28	176	419	623
Depreciation and amortization	1	8	-	9
December 31, 2020	**29**	**184**	**419**	**632**
Carrying Amount				
December 31, 2019	P562	P232	P1	P795
December 31, 2020	**P561**	**P228**	**P1**	**P790**

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P9 in 2020 and 2019 (Notes 17 and 18).

Rent income earned from investment property amounted to P171 and P182 in 2020 and 2019, respectively (Notes 4 and 23). The direct costs and expenses arising from the investment property that generated income amounted to P20 and P14 in 2020 and 2019, respectively.

The fair value of investment property amounting to P5,379 and P5,655 as at December 31, 2020 and 2019, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

The fair value of investment property was determined by external, independent property appraisers having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued. The independent appraisers provide the fair value of the Company’s investment property on a regular basis.

Valuation Technique and Significant Unobservable Inputs
The valuation of investment property applied the following approaches:

Cost Approach. This approach is based on the principle of substitution, which holds that an informed buyer would not pay more for a given property than the cost of an equally desirable alternative. The methodology of this approach is a set of procedures that estimate the current reproduction cost of the improvements, deducts accrued depreciation from all sources, and adds the value of investment property.

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

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment is 4%.

11. Other Noncurrent Assets

Other noncurrent assets consist of:

	Note	2020	2019
Noncurrent receivables	*22*	**P4,117**	P3,301
Less allowance for impairment losses	*4*	**253**	253
	4, 28, 29	**3,864**	3,048
Retirement asset	*24*	**2,538**	2,489
Intangible assets	*4*	**108**	194
Lease receivable	*22*	**24**	18
Deferred financing costs		**4**	1,614
Others		**1,000**	985
		P7,538	P8,348

No impairment loss was recognized in 2020 and 2019.

The amounts owed by related parties, included as part of "Noncurrent receivables" account, amounted to P3,864 and P3,048 as at December 31, 2020 and 2019, respectively (Notes 22 and 28). As at December 31, 2020 and 2019, amounts owed by related parties also include lease receivable amounting to P20 and 18, respectively (Note 22).

In 2019, the Company 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 P1,614 are recognized as deferred financing costs as at December 31, 2019 (Note 14). Upon the drawdown of the related loan in 2020, the amount was reclassified as an addition to debt issue cost recognized as a deduction to "Long-term debt" account in the separate statements of financial position (Note 14).

In 2020, the Company incurred loan facilitation fees and other filing and agency fees totaling to P4 which are recognized as deferred financing costs as at December 31, 2020. The related loan was not yet drawn as at December 31, 2020.

Others consists mainly of option deposit paid by the Company amounting to P975. On February 17, 2017, the Company entered into an option agreement (the Agreement) with the non-controlling stockholder of SMCACDC for the grant to the Company of the option to acquire 35% ownership interest in SMCACDC. The option is exercisable within a period of two years from the execution of the Agreement or such other date as may be agreed upon by the parties in writing. The option deposit shall be applied as partial payment of the option exercise price upon exercise of the option. Prior to the expiration of the two-year option period, the parties agreed to extend the same for another two years under the same terms and conditions.

The movements in intangible assets are as follows:

	Computer Software	Licenses	Project Development Cost	Total
Cost				
January 1, 2019	P352	P258	P37	P647
Additions	-	-	95	95
Disposals and reclassifications	2	(35)	(7)	(40)
December 31, 2019	354	223	125	702
Additions	-	-	88	88
Disposals and reclassifications	4	(28)	(132)	(156)
December 31, 2020	**358**	**195**	**81**	**634**
Accumulated Amortization				
January 1, 2019	344	133	-	477
Amortization	3	28	-	31
December 31, 2019	347	161	-	508
Amortization	4	19	-	23
Disposals and reclassifications	(5)	-	-	(5)
December 31, 2020	**346**	**180**	**-**	**526**
Carrying Amount				
December 31, 2019	P7	P62	P125	P194
December 31, 2020	**P12**	**P15**	**P81**	**P108**

Amortization expense, included as part of "Costs and expenses" account in the separate statements of income, amounted to P23 and P31 in 2020 and 2019, respectively (Notes 17 and 18).

12. Loans Payable

Loans payable represent unsecured peso-denominated loans obtained from local banks amounting to P23,950 and P44,750 as at December 31, 2020 and 2019, respectively. Interest rates for peso-denominated loans range from 3.00% to 3.50% and 4.95% to 5.625% in 2020 and 2019, respectively.

Interest expense on loans payable recognized in the separate statements of income amounted to P2,081 and P2,744 in 2020 and 2019, respectively (Note 20).

13. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	**2020**	2019
Accrued expenses		**P10,113**	P9,652
Derivative liabilities	*28, 29*	**592**	897
Amounts owed to related parties	*22*	**404**	502
Deposits		**22**	22
	28, 29	**P11,131**	P11,073

14. Long-term Debt

Long-term debt consists of:

	2020	2019
Peso-denominated Bonds:		
Series A Bonds, fixed interest rate of 4.8243% maturing in 2022	**P6,663**	P6,647
Series B Bonds, fixed interest rate of 5.284% maturing in 2024	**7,252**	7,240
Series C Bonds, fixed interest rate of 5.7613% maturing in 2027	**5,976**	5,969
Series D Bonds, fixed interest rate of 5.1923% maturing in 2022	**9,968**	9,944
Series E Bonds, fixed interest rate of 6.25% maturing in 2023	**13,067**	13,035
Series F Bonds, fixed interest rate of 6.625% maturing in 2025	**2,418**	2,414
Series G Bonds, fixed interest rate of 7.125% maturing in 2028	**4,373**	4,368
Series H Bonds, fixed interest rate of 5.55% maturing in 2024	**9,905**	9,883
Fixed rate bonds (a)	**59,622**	59,500
Peso-denominated Term Notes:		
Fixed interest rate at 6.9375% with various maturities up to 2026 (b)	**15,661**	15,807
Fixed interest rate of 5.25% (c)	**-**	9,975
Foreign currency-denominated Term Notes:		
Fixed interest rate of 4.875% maturing in 2023 (d)	**24,706**	26,019
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2024 (e)	**93,914**	2,364
Floating interest rate based on LIBOR plus margin, maturing in 2023 (f)	**18,991**	19,943
Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)	**14,261**	14,989
Floating interest rate based on LIBOR plus margin, maturing in 2023 (h)	**14,244**	14,972
Floating interest rate based on LIBOR plus margin, with various maturities up to 2024 (i)	**10,489**	15,070
Floating interest rate based on LIBOR plus margin, maturing in 2023 (j)	**9,494**	9,981
	261,382	188,620
Less current maturities	**159**	14,150
	P261,223	P174,470

a. The amount represents the first, second, third and fourth tranche of the P60,000 shelf registered fixed rate bonds issued by the Company amounting to P20,000, P10,000, P20,000 and P10,000, respectively. The Bonds were listed in the Philippine Dealing & Exchange Corp. (PDEx).

- The first tranche of the fixed rate bonds listed on March 1, 2017 amounting to P20,000 consists of: (i) five-year Series A Bonds, due in 2022 with an interest rate of 4.8243% per annum: (ii) seven-year Series B Bonds, due in 2024 with an interest rate of 5.284% per annum; and, (iii) 10-year Series C Bonds, due in 2027 with an interest rate of 5.7613% per annum. Interest is payable every 1st of March, June, September and December of each year.

- The second tranche of the fixed rate bonds listed on April 7, 2017 amounting to P10,000 comprise of five-year Series D Bonds, due in 2022 with an interest rate of 5.1923% per annum. Interest is payable every 7th of January, April, July and October of each year.

- The third tranche of the fixed rate bonds listed on March 19, 2018 amounting to P20,000, consist of: (i) five-year Series E Bonds, due in 2023 with an interest rate of 6.25% per annum; (ii) seven-year Series F Bonds, due in 2025 with an interest rate of 6.625% per annum; and, (iii) 10-year Series G Bonds, due in 2028 with an interest rate of 7.125% per annum. Interest is payable every 19th of March, June, September and December of each year.

- The fourth tranche of the fixed rate bonds listed on October 4, 2019 amounting to P10,000 comprise of five-year Series H Bonds, due in 2024 with an interest rate of 5.55% per annum. Interest is payable every 4th of January, April, July and October of each year.

Proceeds from the issuance of the bonds were used to partially refinance various loans.

Unamortized debt issue costs amounted to P378 and P500 as at December 31, 2020 and 2019, respectively.

b. The amount represents the drawdown by the Company on June 24, 2019 from its term loan facility amounting to P16,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9375% per annum payable quarterly. The proceeds were used for general corporate purposes.

The Company paid the scheduled amortizations amounting to P160 and P80 in 2020 and 2019, respectively.

Unamortized debt issue costs amounted to P99 and P113 as at December 31, 2020 and 2019, respectively.

c. The amount represents P10,000 Fixed-Rate Notes due in 2020 issued by the 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 Company.

The Company redeemed the Fixed-Rate Notes on May 25, 2020.

Unamortized debt issue costs amounted to P25 as at December 31, 2019.

d. The amount represents the drawdown of US$800 Notes (the “Notes”) issued on April 19, 2013, from the US$2,000 Medium Term Note (MTN) Programme of the Company. The Notes were listed on the same date in the Singapore Exchange Securities Trading Ltd. (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 Company purchased US$284 out of US$400 Notes offered for purchase in the tender offer.

Unamortized debt issue costs amounted to P92 and P128 as at December 31, 2020 and 2019, respectively.

e. The amount represents the drawdown by the Company on December 27, 2019 and March 19, 2020, amounting to US$50 and US$1,950, respectively, from its term loan facility amounting to US$2,000. The term of the loan is for five years and is subject to a floating interest rate. The proceeds of the loans will be used for general corporate purposes.

   Unamortized debt issue costs amounted to P2,132 and P168 as at December 31, 2020 and 2019, respectively.

f. The amount represents the drawdown by the Company on March 16, 2018 from its term loan facility amounting to US$400. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund the subscription of RPS in SMC Global, to partially finance the acquisition of Masinloc Group of Companies.

   Unamortized debt issue costs amounted to P218 and P311 as at December 31, 2020 and 2019, respectively.

g. The amount represents the drawdown by the Company on June 26, 2018 from its term loan facility amounting to US$300. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund general corporate requirements and/or additional investments to its subsidiaries.

   Unamortized debt issue costs amounted to P146 and P201 as at December 31, 2020 and 2019, respectively.

h. The amount represents the drawdown by the Company of US$120 and US$180 on September 25, 2018 and October 25, 2018, respectively, from its term loan facility amounting to US$300. The term of the loans is for five years and is subject to a floating interest rate. The proceeds were used to refinance existing US dollar-denominated obligations and/or for general corporate requirements.

   Unamortized debt issue costs amounted to P163 and P219 as at December 31, 2020 and 2019, respectively.

i. The amount represents the drawdown by the Company on October 24, 2017 from its term loan facilities amounting to US$300 entered into with various banks. The loan has various maturities and is subject to floating interest rate. The proceeds were used to fund general corporate requirements and/or partially repay existing loans.

   In 2020, the Company paid on schedule amounting to US$80 as at December 31, 2020.

   Unamortized debt issue costs amounted to P75 and P120 as at December 31, 2020 and 2019, respectively.

j. The amount represents the drawdown by the Company on November 21, 2018 from its term loan facility amounting to US$200. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to repay existing US dollar-denominated obligations.

   Unamortized debt issue costs amounted to P111 and P146 as at December 31, 2020 and 2019, respectively.

On July 11, 2019, the BOD of the Company approved the conduct of a consent solicitation process from the holders of the US$800 4.875% Notes due in 2023, of which US$516 are currently outstanding, and to the holders of record as at November 14, 2019 of the following debt securities namely: (i) 4.8243% Series A Bonds due in 2022, 5.284% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.25% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.125% Series G Bonds due in 2028; and (iv) 5.25% Fixed Rate Notes due in 2020, to the amendments to certain terms and conditions in the respective trust agreements.

The objective of the consent solicitation is to align the covenants and provisions of the Debt Securities with the relevant covenants and provisions of: (i) the P10,000 retail bond of the Company listed on October 4, 2019; and (ii) the US$2,000 Syndication Agreement dated December 18, 2019 relating to the US$1,750 Facility Agreement dated September 27, 2019.

The 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 Company and the respective trustees of the said bonds on December 26, 2019.

On November 28, 2019, majority of the holders of the US$800 4.875% Notes due in 2023, of which US$516 are currently outstanding, passed the Extraordinary Resolution amending certain terms and conditions of the Notes and in the Trust Deed of the Notes in order to align the covenants and provisions of the Notes with the relevant covenants and provisions of: (i) the P10,000 retail bond of the Company listed on October 4, 2019; and (ii) the US$1,750 syndicated term loan facility.

The Supplemental Trust Deed amending certain terms and conditions of the Notes and the Trust Deed has been executed on November 29, 2019.

The debt agreements contain, among others, covenants relating to merger and consolidation, negative pledge, maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, significant changes in the ownership or control of subsidiaries.

The Company is in compliance with the covenants of the debt agreements as at December 31, 2020 and 2019.

Interest expense on long-term debt recognized in the separate statements of income amounted to P9,306 and P8,926 in 2020 and 2019, respectively (Note 20).

The movements in debt issue costs are as follows:

	Note	**2020**	2019
Balance at beginning of year		**P1,931**	P2,004
Additions	*11*	**2,395**	410
Amortization	*20*	**(912)**	(483)
Balance at end of year		**P3,414**	P1,931

Repayment Schedule
The annual maturities of long-term debt are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2021	**P160**	**P1**	**P159**
2022	**23,086**	**89**	**22,997**
2023	**95,732**	**809**	**94,923**
2024	**117,119**	**2,215**	**114,904**
2025	**3,301**	**21**	**3,280**
2026	**14,960**	**189**	**14,771**
2027	**6,022**	**47**	**5,975**
2028	**4,416**	**43**	**4,373**
Total	**P264,796**	**P3,414**	**P261,382**

Contractual terms of the Company's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 28.

15. Income Taxes

Deferred tax assets and liabilities arise from the following:

	2020	2019
Items Recognized in Profit or Loss		
Allowance for impairment losses	**P2,559**	P2,559
Unrealized foreign exchange loss	**703**	1,413
Excess of MCIT over Regular Corporate Income Tax (RCIT)	**249**	157
Retirement benefits	**(260)**	(270)
Others	**1,183**	1,195
	4,434	5,054
Items Recognized Directly in Other Comprehensive Income		
Net gain on financial assets at FVOCI	**(53)**	(52)
Equity reserve for retirement plan	**(495)**	(470)
Net loss on cash flow hedges	**216**	181
	(332)	(341)
	P4,102	P4,713

The movements in deferred tax assets are as follows:

2020	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Allowance for impairment losses	**P2,559**	**P -**	**P -**	**P2,559**
Unrealized foreign exchange loss	**1,413**	**(710)**	**-**	**703**
Excess MCIT over RCIT	**157**	**92**	**-**	**249**
Retirement benefits	**(270)**	**10**	**-**	**(260)**
Net gain on financial assets at FVOCI	**(52)**	**-**	**(1)**	**(53)**
Equity reserve for retirement plan	**(470)**	**-**	**(25)**	**(495)**
Net loss on cash flow hedges	**181**	**-**	**35**	**216**
Others	**1,195**	**(12)**	**-**	**1,183**
	P4,713	**(P620)**	**P9**	**P4,102**

2019	Balance at January 1	Effect of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Allowance for impairment losses	P2,559	P -	P -	P -	P2,559
Unrealized foreign exchange loss	1,943	-	(530)	-	1,413
NOLCO	1,888	-	(1,888)	-	-
Excess MCIT over RCIT	89	-	68	-	157
Retirement benefits	(266)	-	(4)	-	(270)
Net gain on financial assets at FVOCI	(45)	-	-	(7)	(52)
Equity reserve for retirement plan	(575)	-	-	105	(470)
Net loss on cash flow hedges	51	-	-	130	181
Others	1,153	11	31	-	1,195
	P6,797	P11	(P2,323)	P228	P4,713

The components of income tax expense are shown below:

	2020	2019
Current	**P196**	P300
Deferred	**620**	2,323
	P816	P2,623

As at December 31, 2020, the MCIT of the Company that can be claimed as deduction from corporate income tax due, are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**Balance**
2018	December 31, 2021	P65
2019	December 31, 2022	79
2020	December 31, 2023	105
		P249

As at December 31, 2020, the NOLCO of the Company that can be claimed as deduction from future taxable income are as follows:

Year Incurred/Paid	**Carryforward Benefits Up To**	**Balance**
2018	December 31, 2021	P5,747
2019	December 31, 2022	3,399
2020	December 31, 2025	3,685
		P12,831

Deferred tax asset in respect of NOLCO amounting to P3,849 has not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

On September 30, 2020, the BIR issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 (bbbb) of Republic Act (RA) No. 11494, otherwise known as the Bayanihan to Recover as One Act, relative to NOLCO which provides that the net operating loss of a business or enterprise for taxable years 2020 and 2021 shall be carried over as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

The net operating loss for the said taxable years may be carried over as a deduction even after the expiration of RA No. 11494, provided that the same is claimed within the next five consecutive taxable years following the year such loss was incurred.

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

	2020	2019
Statutory income tax rate	**30.00%**	30.00%
Increase (decrease) in income tax rate resulting from:		
Nontaxable income	**(50.17%)**	(74.91%)
Income subject to final tax	**0.64%**	(6.49%)
Others	**30.03%**	97.86%
Effective income tax rate	**10.50%**	46.46%

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) Bill
On November 26, 2020, the Senate approved on third and final reading Senate Bill No. 1357, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act or CREATE, which seeks to reduce the corporate income tax (CIT) rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performance-based.

One of the key provisions of the bill that may affect the separate financial statements of the Company is an immediate 5% point cut in the CIT rate starting July 2020.

The bill requires the approval of the Congress and by the President of the Philippines to be enacted as a law. As at December 31, 2020, the bill is still pending with the bicameral committee of Congress and consequently was not yet submitted to the President of the Philippines. Upon submission to the President of the Philippines, he may either approve it or exercise his veto power to stop the enactment of the bill.

Since the bill is not considered substantively enacted, the deferred tax assets are measured using the applicable income tax rates as at December 31, 2020.

The bicameral committee approved the bill on February 1, 2021. As at March 11, 2021, the bill is yet to be approved by the President of the Philippines.

The estimated impact on the Company's separate financial statements based on balances as at and for the year ended December 31, 2020, which will be taken up upon the effectivity of the CREATE law, are as follows:

ASSETS	
Prepaid expenses and other current assets	**P26**
Deferred tax assets	**(670)**
	(P644)
LIABILITIES AND EQUITY	
Equity reserve	**P46**
Retained earnings	**(690)**
	(P644)
Income tax expense:	
Current	**(P26)**
Deferred	**716**
	P690

16. Equity

a. Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Company. The authorized capital stock of the 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 Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Company, to increase the authorized capital stock of the 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 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 Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the 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 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 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

<u>Common Shares</u>
On July 27, 2010, the BOD of the 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 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 Company has a total of 34,013 and 34,164 common stockholders as at December 31, 2020 and 2019 respectively.

The movements in the number of issued and outstanding shares of common stock are as follows:

	2020	2019
Issued and outstanding shares at the beginning of year	**P3,288,649,125**	P3,288,649,125
Less treasury shares	**904,752,537**	904,752,537
Issued and outstanding shares at end of year	**P2,383,896,588**	P2,383,896,588

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 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 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 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 Company approved the Offer by the Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the 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 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 Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the 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 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 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 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 Company has 279,406,667 outstanding Series “1” preferred shares held by three stockholders as at December 31, 2019.

On March 12, 2020, the BOD of the Company approved the redemption of Series “1” preferred shares at a redemption price of P75.00 per share.

On April 14, 2020, 279,406,667 Series “1” preferred shares were reverted to treasury.

The Company has 279,406,667 Series “1” preferred shares held in treasury as at December 31, 2020,

The Company has no outstanding Series “1” preferred as at December 31, 2020.

ii. Series “2” Preferred Shares

Subseries 2-A, 2-B and 2-C
In September 2012, the 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 on 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 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 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 Company paid P54,076 to the holders of Subseries “2-A” preferred shares.

On September 23, 2019, the Company redeemed its 90,428,200 Series 2 preferred shares Subseries “2-B” preferred shares at a redemption price of P75.00 per share. The 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 Company issued and listed in the PSE 446,667,000 Series “2” preferred shares held in treasury in three subseries (Subseries “2-D”, Subseries “2-E” and Subseries “2-F”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries “2-D”, “2-E” and “2-F”, respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

On September 21, 2020, the Company redeemed its 89,333,400 Series “2” preferred shares - Subseries “2-D” at a redemption price of P75.00 per share plus any unpaid cash dividends. The Company paid P6,700 to the holders of Subseries “2-D” preferred shares.

Subseries 2-G, 2-H and 2-I
On February 24, 2016, the BOD of PSE approved the listing application of the 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 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 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%, 6.3355% per annum for Subseries “2-G”, “2-H” and “2-I”, respectively.

Following the completion of the 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 Company re-issued the Series “2” preferred shares held in treasury, as follows: (i) 244,432,686 Series “2” preferred shares; and (ii) 155,567,314 Subseries “2-A” preferred shares (collectively, the “Offer Shares”). The Series “2” preferred shares were Series “1” preferred shares held in treasury that were reclassified to Series “2” preferred shares on June 9, 2015.

The remaining 575,571,800 Shelf Registered Shares will no longer be issued due to the expiration of the shelf registration, which is a period of three years from the date of approval.

Subseries 2-J and 2-K
On September 30, 2020, the BOD of PSE approved the listing application of the Company of up to 533,333,334 Series “2” preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 266,666,667 Series “2” preferred shares (the First Tranche) with a par value of P5.00 per share and an offer price of P75.00 per share. The SEC approved and rendered effective the shelf registration of the Shelf Registered Shares on October 9, 2020. The permit to sell was issued by the SEC on the same date.

The Company offered the First Tranche consisting of: (i) 133,333,400 Series "2-J" preferred shares; and (ii) an Oversubscription Option of up to 133,333,267 Series "2-J" preferred shares at an offer price of P75.00 per share. The First Tranche consisting of 266,666,667 Series "2-J" Preferred Shares was issued on October 29, 2020, which was also the date when the First Tranche was listed on the PSE.

The Company offered a Second Tranche of the Shelf Registered Shares, consisting (i) 133,333,400 Subseries "2-K" preferred shares; and (ii) an Oversubscription Option of up to 133,333,267 Subseries "2-K" preferred shares at an offer price of P75.00 per share. The Second Tranche consisting of 183,904,900 Series "2-K" was issued and listed on the PSE on December 10, 2020.

The First and Second Tranche were re-issued and offered from the Subseries "2-A" preferred shares held in treasury.

Dividend rates for Subseries "2-J" and "2-K" are 4.75% and 4.50% per annum, respectively.

The Company has 294,635,119 and 655,873,286 Series "2" preferred shares held in treasury as at December 31, 2020 and 2019, respectively.

The Company has 1,463,464,567 and 1,102,226,400 outstanding Series "2" preferred shares and has a total of 910 and 1,043 preferred stockholders as at December 31, 2020 and 2019, respectively.

c. *Treasury Shares*

Treasury shares consist of:

	2020	2019
Common	**P67,093**	P67,093
Preferred	**43,053**	49,190
	P110,146	P116,283

Common Shares

The Company has 904,752,537 common shares held in treasury as at December 31, 2020 and 2019.

1. A portion of the total treasury shares of the 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 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 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 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 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 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 Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The 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 Company. The financial advisor stated that if the 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 Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the 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 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 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 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 Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the 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 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 Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Company shares in favor of the Government cannot bind the Company, and that the 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 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 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 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 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 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 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 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 Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Company to comply with the Sandiganbayan Resolution (the "Urgent Motion"). On March 30, 2012, the 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 Company on February 22, 2012, directing the Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the 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 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 Company is likewise not a party in those cases, and if the 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 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 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 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 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 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 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 Company to the 25,450,000 treasury shares of the 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 Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Company consisting of 27,580,000 common shares from the treasury shares of the Company and 82,740,000 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 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 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 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 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 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 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 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 Company's exchangeable bonds as at December 31, 2014.

5. In 2014 and 2013, 68,150 common shares and 3,410,250 common shares, respectively, under the Company's Employee Stock Purchase Plan (ESPP) were cancelled and held in treasury shares.

   Under the ESPP, employees of the Company receive remuneration in the form of share-based payment transactions, whereby the employees render services as consideration for equity instruments of the Company.

   The ESPP allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock.

   In 2016, the Company discontinued the ESPP.

d. Capital Securities

<u>Senior Perpetual Capital Securities</u>
On December 5, 2019, the BOD approved the establishment of a medium term note programme amounting to US$3,000 (the "Programme"), and the issuance of US$500 perpetual securities out of the Programme. The Programme and the initial issuance of perpetual securities will be both registered at the SGX-ST.

The Programme will be available for a medium term and will allow the Company to tap the financial market for funding through the issuance of securities, including but not limited to corporate notes, bonds, and perpetual securities and other similar instruments at different currencies (other than Philippine peso). The establishment of the Programme will give the 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 Manila International Airport, as well as the refinancing of its existing obligations and for other general corporate purposes. All instruments and securities that will be issued out of the Programme shall be exempt securities and shall not be required to be registered with the PSE.

On July 29, 2020, the Company issued US$500 SPCS at an issue price of 100%, with an initial rate of distribution of 5.5% per annum payable every January 29 and July 29 of each year. The securities were issued under the Company's US$3,000 Medium Term Note and Securities Programme. The net proceeds will be used to finance investments and various projects, to refinance existing obligations and for general corporate purposes.

Redeemable Perpetual Securities
On various dates in June and July 2020, the Company issued a total of P14,810 RPS at an issue price of 100%, with an initial rate of distribution of 5% per annum.

On September 29 and October 19, 2020, the Company purchased and cancelled a total amount of P10,810 RPS, pursuant to the agreement with the holders of the said RPS who accepted the offer by the Company to purchase the RPS. As a result of the purchase, the RPS were cancelled in accordance with the terms and conditions of the purchase agreement between the parties.

The outstanding P4,000 RPS issued to a related party, with initial rate of distribution of 5% per annum is payable every January 1, April 1, July 1 and October 1 of each year.

On August 4, 2020, the Company issued US$100 RPS to a related party, at an issue price of 100%, with an initial rate of distribution of 2.5% per annum, payable every February 5, May 5, August 5 and November 5 of each year.

The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears. The Company has the right to defer this distribution under certain conditions.

The net proceeds of RPS were used by the Company for general corporate requirements.

e. *Unappropriated Retained Earnings*

The unappropriated retained earnings of the Company is restricted in the amount of P67,093 in 2020 and 2019 representing the cost of common shares held in treasury.

17. Costs and Expenses

Costs and expenses consist of:

	Note	**2020**	2019
Contracted services		**P1,779**	P1,232
Personnel	*19*	**1,612**	1,803
Professional fees		**815**	841
Travel, entertainment and representation		**478**	896
Depreciation and amortization	*18*	**192**	200
Rent, repairs and maintenance, supplies and utilities	*23*	**186**	247
Taxes and licenses		**164**	113
Others		**44**	69
		P5,270	P5,401

18. Depreciation and Amortization

Depreciation and amortization arise from the following accounts:

	Note	2020	2019
Property, plant and equipment	*8*	**P85**	P86
Right-of-use asset	*9*	**75**	74
Investment property	*10*	**9**	9
Intangible assets	*11*	**23**	31
	17	**P192**	P200

19. Personnel Expenses

Personnel expenses consist of:

	Note	2020	2019
Salaries and wages		**P1,301**	P1,472
Retirement costs	*24*	**139**	167
Other employee benefits		**172**	164
	17	**P1,612**	P1,803

20. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	2020	2019
Interest expense	**P11,439**	P11,725
Other financing charges	**1,179**	931
	P12,618	P12,656

Amortization of debt issue costs, included as part of “Other financing charges”, amounted to P912 and P483 in 2020 and 2019, respectively (Note 14).

Interest expense on loans payable, long-term debt and lease liabilities is as follows:

	Note	2020	2019
Loans payable	*12*	**P2,081**	P2,744
Long-term debt	*14*	**9,306**	8,926
Lease liabilities	*23*	**52**	55
		P11,439	P11,725

21. Interest Income

Interest income consists of:

	Note	**2020**	2019
Interest from short-term investments, cash in banks and others		**P2,734**	P4,239
Interest on amounts owed by related parties	*22*	**390**	402
Interest on actuarial	*24*	**105**	180
		P3,229	P4,821

22. Related Party Disclosures

The Company, certain subsidiaries and their shareholders and associates purchase products and services from one another in the normal course of business. The Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the Company's consolidated total assets based on its latest audited financial statements.

Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

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

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	*6*	**2020**	**P -**	**P -**	**P3,439**	**P -**	On demand; non -	Unsecured;
		2019	-	-	3,626	-	interest bearing	no impairment
	11	**2020**	**-**	**-**	**3,037**	**-**	To be settled on the	Unsecured;
		2019	-	-	3,037	-	first anniversary of commercial operations of the Nonoc Project; interest bearing	no impairment
	25	**2020**	**-**	**-**	**-**	**551**	Settled on dividend	Unsecured;
		2019	-	-	-	551	payment date	no impairment
Entities under		**2020**	**8**	**-**	**44**	**-**	On demand;	Unsecured;
Common Control		2019	8	-	37	-	non-interest bearing	no impairment
Subsidiaries	*6, 7, 11, 13*	**2020**	**4,599**	**781**	**64,185**	**3,669**	On demand;	Unsecured;
		2019	4,584	968	62,498	6,589	non-interest bearing	no impairment
Associates of	*6, 11*	**2020**	**28**	**-**	**6**	**-**	On demand;	Unsecured;
Subsidiaries		2019	29	-	10	16	interest bearing and non-interest bearing	no impairment
Retirement Plan	*6, 21, 24*	**2020**	**211**	**-**	**7,482**	**-**	On demand;	Unsecured;
		2019	215	-	7,304	-	interest bearing and non-interest bearing	no impairment
		2020	**P4,846**	**P781**	**P78,193**	**P4,220**		
		2019	P4,836	P968	P76,512	P7,156		

a. Purchases consist of purchase of power, products and services from related parties.

b. Amounts owed by related parties consist of receivables, share in expenses, rental, interest and non-interest bearing non-trade receivables and management fees. Amounts owed by related parties also include prepaid rent amounting to P1 as at December 31, 2020 and 2019, and derivative assets amounting to P26 as at December 31, 2019, presented as part of "Prepaid expenses and other current assets" account in the separate statements of financial position.

Amounts owed by related parties include interest bearing receivable from the 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 Company amounting to P725.

(i) *Amounts owed by the Parent Company amounting to P2,312:* On September 27, 2019, the parties agreed in writing that the second payment amounting to P1,099, plus 5.75% per annum of any portion thereof unpaid, and the final payment amounting to P1,213, plus 6.00% per annum of any portion thereof unpaid, shall be payable and the interest shall be accrued, on the first anniversary of commercial operations of the Nonoc Project or such extended date as may be mutually agreed by the parties in writing. As a result, no accrual of interest was made as at December 31, 2020 and 2019. The Nonoc Project is primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte undertaken by Pacific Nickel Philippines, Inc., an indirect subsidiary of Clariden. These amounts are included as part of noncurrent receivables under "Other noncurrent assets" account in the separate statements of financial position as at December 31, 2020 and 2019 (Note 11).

(ii) *Amounts owed by the Parent Company amounting to P725:* These amounts are subject to 5.75% interest per annum and will accrue upon commencement of commercial operations of the Nonoc Project. As a result, no accrual of interest was made as at December 31, 2020 and 2019. These amounts are included as part of noncurrent receivables under "Other noncurrent assets" account in the separate statements of financial position as at December 31, 2020 and 2019 (Note 11).

c. Amounts owed to related parties consist of payables, subscription of shares, insurance, advance rental, security deposits, dividends payable and commodity hedges. Derivative liability amounted to P30 and P4 as at December 31, 2020 and 2019, respectively, presented as part of "Accounts payable and accrued expenses" in the separate statements of financial position. Subscriptions payable amounted to P2,710 and P5,515 as at December 31, 2020 and 2019, respectively. Dividends payable amounted to P551 as at December 31, 2020 and 2019. Lease liabilities amounted to P525 and P584 as at December 31, 2020 and 2019, respectively, presented as "Other noncurrent liabilities" in the separate statements of financial position.

d. The compensation of key management personnel of the Company, by benefit type, follows:

	Note	**2020**	2019
Short-term employee benefits		**P268**	P459
Retirement benefits	*24*	**2**	(4)
		P270	P455

23. Leasing Agreements

Company as Lessor

The Company has entered into various property leases. These non-cancellable leases will expire up to year 2036. 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:

	2020	2019
Within one year	**P175**	P172
After one year but not more than five years	**139**	132
More than five years	**329**	316
	P643	P620

Rent income recognized in the separate statements of income amounted to P171 and P182 in 2020 and 2019, respectively (Notes 4 and 10).

Company as Lessee

The Company's leases building and improvements and a parcel of land. These leases typically run for a period of 10 to 25 years. The Company has the option to renew the lease after the expiration of the lease term.

The minimum annual rental commitments under these non-cancellable leases, which are payable within one year from reporting date, amounted to P111 and P110 as at December 31, 2020 and 2019, respectively.

The future minimum lease payments under non-cancellable leases are as follows:

December 31, 2020	**Future Minimum Lease Payments**	**Interest**	**Present Value of Minimum Lease Payments**
Within one year	**P105**	**P47**	**P58**
After one year but not more than five years	**454**	**128**	**326**
More than five years	**236**	**24**	**212**
	P795	**P199**	**P596**

December 31, 2019	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Within one year	P103	P53	P50
After one year but not more than five years	442	154	288
More than five years	355	45	310
	P900	P252	P648

The Company recognized interest expense related to these leases amounting to P52 and P55 in 2020 and 2019, respectively (Note 20).

The Company also leases office facilities. The leases typically run for a period of one year. 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. The expenses relating to these short-term term leases and leases of low-value assets are recognized as rent expense in 2020 and 2019.

Rent expense, included as part of "Costs and expenses" account in the separate statements of income, amounted to P18 and P25 in 2020 and 2019, respectively (Note 17).

24. Retirement Plan

The Company has funded, noncontributory, defined benefit retirement plan (Retirement Plan) covering all of its permanent employees. The Retirement Plan of the Company pays out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plan. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2020. Valuations are obtained on a periodic basis.

The Retirement Plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, as amended. The control and administration of the Retirement Plan is vested in the Board of Trustees. The Board of Trustees of the Retirement Plan who exercises voting rights over the shares and approves material transactions are employees and/or officers of the Company. The Retirement Plan's accounting and administrative functions are undertaken by the Retirement Funds Office of the Company.

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

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Asset	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Balance at beginning of year	**P7,292**	P9,696	**(P3,056)**	(P3,548)	**(P1,747)**	(P3,321)	**P2,489**	P2,827
Recognized in Profit or Loss								
Service costs	**-**	-	**(139)**	(167)	**-**	-	**(139)**	(167)
Interest expense	**-**	-	**(156)**	(264)	**-**	-	**(156)**	(264)
Interest income	**350**	690	**-**	-	**-**	-	**350**	690
Interest on the effect of asset ceiling	**-**	-	**-**	-	**(89)**	(246)	**(89)**	(246)
	350	690	**(295)**	(431)	**(89)**	(246)	**(34)**	13
Recognized in Other Comprehensive Income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	**-**	-	**323**	146	**-**	-	**323**	146
Changes in financial assumptions	**-**	-	**(34)**	(35)	**-**	-	**(34)**	(35)
Changes in demographic assumptions	**-**	-	**1**	12	**-**	-	**1**	12
Return on plan assets excluding interest income	**(406)**	(2,294)	**-**	-	**-**	-	**(406)**	(2,294)
Changes in the effect of asset ceiling		-	**-**	-	**199**	1,820	**199**	1,820
	(406)	(2,294)	**290**	123	**199**	1,820	**83**	(351)
Others								
Benefits paid	**(857)**	(800)	**857**	800	**-**	-	**-**	-
Balance at end of year	**P6,379**	P7,292	**(P2,204)**	(P3,056)	**(P1,637)**	(P1,747)	**P2,538**	P2,489

The Company's annual contribution to the Retirement Plan consists of payments covering the current service cost plus amortization of unfunded past service liability.

Retirement costs recognized as part of "Personnel expenses" under "Cost and expenses" account in the separate statements of income amounted to P139 and P167 in 2020 and 2019, respectively (Note 19).

The net interest on the defined benefit retirement asset recognized as part of "Interest income" account in the separate statements of income amounted to P105 and P180 in 2020 and 2019, respectively (Note 21).

Defined benefit retirement asset included as part of "Other noncurrent assets" account amounted to P2,538 and P2,489 as at December 31, 2020 and 2019, respectively (Note 11).

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

The Company's plan assets consist of the following:

	In Percentages	
	2020	2019
Investments in marketable securities and shares of stock	**93.04**	92.53
Investments in pooled funds:		
Fixed income portfolio	**0.72**	0.75
Stock trading portfolio	**0.31**	0.31
Investments in real estate	**3.44**	3.41
Others	**2.49**	3.00

Investments in Marketable Securities
As at December 31, 2020 the plan assets include:

- 2,690,007 common shares of the Company with fair market value per share of P128.10;
- 1,915,108 common shares of Top Frontier with fair market value per share of P140.00;
- 5,085,800 common shares of SMB with fair market value per share of P20.00;
- 12,308,221 common shares of GSMI with fair market value per share of P49.40;
- 273,580,000 common shares of Petron with fair market value per share of P3.99;
- 6,218,730 common shares of SMFB with fair market value per share of P67.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- investment in shares of stock of PSE and other equity securities which amounted to P1,174.

As at December 31, 2019, the plan assets include:

- 2,690,007 common shares of the Company with fair market value per share of P164.00;
- 1,907,198 common shares of Top Frontier with fair market value per share of P214.00;
- 5,085,800 common shares of SMB with fair market value per share of P20.00;
- 12,308,221 common shares of GSMI with fair market value per share of P38.00;
- 273,580,000 common shares of Petron with fair market value per share of P3.86;
- 6,211,080 common shares of SMFB with fair market value per share of P85.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- investment in shares of stock of PSE and other equity securities which amounted to P1,333.

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 3).

The Company's Retirement Plan recognized a loss on the investment in marketable securities of the Company, its subsidiaries and Top Frontier amounting to P175 and P739 in 2020 and 2019, respectively.

Dividend income from the investment in shares of stock of the Company and its subsidiaries amounted to P58 and P144 in 2020 and 2019, respectively.

Investment in Shares of Stock
The Retirement Plan has 39.94% equity interest in Bank of Commerce (BOC), representing 44,834,286 common shares, amounting to P9,952 and P9,684 as at December 31, 2020 and 2019, respectively. The Retirement Plan recognized its share in total comprehensive income of BOC amounting to P268 and P277 in 2020 and 2019, 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 Company and its domestic subsidiaries 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 Plan has 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.

Investment income and expenses are allocated to the plan based on its pro-rata share in net assets of the pooled funds. The Retirement Plan's interests in the net assets of the pooled funds were 3.49% and 3.13% of fixed income portfolio as at December 31, 2020 and 2019, respectively and 5.83% and 4.54% of stock trading portfolio as at December 31, 2020 and 2019, respectively.

Approximately 2.31% and 4.38% of the Retirement Plan's investment in fixed income portfolio and stock trading portfolio, respectively, represent investment in shares of stock of the Company and its subsidiaries as at December 31, 2020.

Approximately 2.13% and 3.64% of the Retirement Plan's investment in fixed income portfolio and stock trading portfolio, respectively, represent investment in shares of stock of the Company and its subsidiaries as at December 31, 2019.

Investments in Real Estate
The Retirement Plan has investments in real estate properties as at December 31, 2020 and 2019. The fair value of investment property amounted to P516 as at December 31, 2020 and 2019.

Others
Others include the Retirement Plan's investment in trust account, 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 Company's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The Company is not expected to contribute to its defined benefit retirement plan in 2021.

The Retirement Plan exposes the Company 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 Plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plan. 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 Company to manage the Retirement Plan efficiently.

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

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

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

	In Percentages	
	2020	2019
Discount rate	**3.78**	5.10
Salary increase rate	**4.00**	5.00

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 is 5 years and 3.7 years as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below:

	Defined Benefit Retirement Obligation			
	2020		2019	
	1 Percent Increase	**1 Percent Decrease**	1 Percent Increase	1 Percent Decrease
Discount rate	**(P102)**	**P117**	(P106)	P120
Salary increase rate	**116**	**(103)**	119	(107)

The Company has advances to and receivables from the Retirement Plan amounting to P7,482 and P7,304 as at December 31, 2020 and 2019, respectively, included as part of "Amounts owed by related parties" under "Receivables" account in the separate statements of financial position (Note 6). A portion of the advances are subject to interest of 5.75% in 2020 and 2019. Interest income earned from the advances amounted to P189 in 2020 and 2019 (Note 21).

Transactions with the Retirement Plan are made at normal market prices and terms. Outstanding balances as at December 31, 2020 and 2019 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Company has not made any provision for impairment losses relating to the receivables from the Retirement Plan in 2020 and 2019.

25. Cash Dividends and Distributions

Cash Dividends

The BOD of the Company approved the declaration and payment of the following cash dividends to common and preferred stockholders as follows:

2020

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common	March 12, 2020	April 3, 2020	April 30, 2020	**P0.35**
	June 30, 2020	July 15, 2020	July 31, 2020	**0.35**
	September 10, 2020	October 9, 2020	October 30, 2020	**0.35**
	December 3, 2020	January 4, 2021	January 22, 2021	**0.35**

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Preferred				
SMCP1	January 23, 2020	March 20, 2020	April 3, 2020	**P1.0565625**
SMC2C	January 23, 2020	March 20, 2020	April 3, 2020	**1.50**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.50**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.50**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.50**
SMC2D	January 23, 2020	March 20, 2020	April 3, 2020	**1.11433125**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.11433125**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.11433125**
SMC2E	January 23, 2020	March 20, 2020	April 3, 2020	**1.18603125**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.18603125**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.18603125**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.18603125**
SMC2F	January 23, 2020	March 20, 2020	April 3, 2020	**1.27635**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.27635**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.27635**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.27635**
SMC2G	January 23, 2020	March 20, 2020	April 3, 2020	**1.23361875**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.23361875**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.23361875**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.23361875**
SMC2H	January 23, 2020	March 20, 2020	April 3, 2020	**1.1854125**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.1854125**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.1854125**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.1854125**
SMC2I	January 23, 2020	March 20, 2020	April 3, 2020	**1.18790625**
	May 28, 2020	June 19, 2020	July 3, 2020	**1.18790625**
	August 6, 2020	September 21, 2020	October 5, 2020	**1.18790625**
	November 5, 2020	December 18, 2020	January 8, 2021	**1.18790625**
SMC2J	November 5, 2020	December 18, 2020	January 8, 2021	**0.890625**

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

Forward

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
SMC2D	January 24, 2019	March 22, 2019	April 5, 2019	P1.11433125
	May 9, 2019	June 21, 2019	July 5, 2019	1.11433125
	August 8, 2019	September 20, 2019	October 4, 2019	1.11433125
	November 7, 2019	December 20, 2019	January 10, 2020	1.11433125
SMC2E	January 24, 2019	March 22, 2019	April 5, 2019	1.18603125
	May 9, 2019	June 21, 2019	July 5, 2019	1.18603125
	August 8, 2019	September 20, 2019	October 4, 2019	1.18603125
	November 7, 2019	December 20, 2019	January 10, 2020	1.18603125
SMC2F	January 24, 2019	March 22, 2019	April 5, 2019	1.27635
	May 9, 2019	June 21, 2019	July 5, 2019	1.27635
	August 8, 2019	September 20, 2019	October 4, 2019	1.27635
	November 7, 2019	December 20, 2019	January 10, 2020	1.27635
SMC2G	January 24, 2019	March 22, 2019	April 5, 2019	1.23361875
	May 9, 2019	June 21, 2019	July 5, 2019	1.23361875
	August 8, 2019	September 20, 2019	October 4, 2019	1.23361875
	November 7, 2019	December 20, 2019	January 10, 2020	1.23361875
SMC2H	January 24, 2019	March 22, 2019	April 5, 2019	1.1854125
	May 9, 2019	June 21, 2019	July 5, 2019	1.1854125
	August 8, 2019	September 20, 2019	October 4, 2019	1.1854125
	November 7, 2019	December 20, 2019	January 10, 2020	1.1854125
SMC2I	January 24, 2019	March 22, 2019	April 5, 2019	1.18790625
	May 9, 2019	June 21, 2019	July 5, 2019	1.18790625
	August 8, 2019	September 20, 2019	October 4, 2019	1.18790625
	November 7, 2019	December 20, 2019	January 10, 2020	1.18790625

On January 21, 2021, the BOD of the Company declared cash dividends to all preferred stockholders of record as at March 19, 2021 on the following shares to be paid on April 5, 2021, as follows:

Class of Shares	Dividends Per Share
SMC2C	P1.50
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625
SMC2J	0.890625
SMC2K	0.84375

On March 11, 2021, the BOD of the Company declared cash dividends at P0.35 per share to all common shareholders of record as at April 5, 2021 to be paid on April 30, 2021.

<u>Distributions</u>
On various dates in 2020, holders of the RPS were paid a total of P281 as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Company.

26. Basic/Diluted Earnings Per Share

Basic/diluted EPS is computed as follows:

	2020	2019
Net income	**P6,958**	P3,023
Dividends on preferred shares	**(6,083)**	(7,187)
Distributions to capital securities	**(906)**	-
Net loss attributable to common shareholders (a)	**(P31)**	(P4,164)
Weighted average number of common shares outstanding (in millions) - basic (b)	**2,384**	2,384
Basis/diluted loss per common share (a/b)	**(P0.01)**	(P1.75)

27. Supplemental Cash Flow Information

Supplemental information with respect to the separate 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 separate statements of financial position):

	2020	2019
Receivables	**(P1,835)**	P627
Prepaid expenses and other current assets	**(256)**	(269)
Accounts payable and accrued expenses	**812**	(1)
Income and other taxes payable and others	**109**	(8)
	(P1,170)	P349

b. Changes in liabilities arising from financing activities

	Loans Payable	Long-term Debt	Dividends Payable	Lease Liabilities
Balance at January 1, 2020	**P44,750**	**P188,620**	**P3,394**	**P648**
Changes from Financing Activities				
Proceeds from borrowings	**428,400**	**98,864**	**-**	**-**
Payments of borrowings	**(449,200)**	**(14,148)**	**-**	**-**
Cash dividends and distributions paid	**-**	**-**	**(9,773)**	**-**
Payments of lease liabilities	**-**	**-**	**-**	**(52)**
Total Change from Financing Activities	**(20,800)**	**84,716**	**(9,773)**	**(52)**
Effect of changes in foreign exchange rates	**-**	**(11,251)**	**-**	**-**
Cash dividends and distributions declared	**-**	**-**	**9,670**	**-**
Other changes	**-**	**(703)**	**-**	**-**
	-	**(11,954)**	**9,670**	**-**
Balance at December 31, 2020	**P23,950**	**P261,382**	**P3,291**	**P596**

	Loans Payable	Long-term Debt	Dividends Payable	Lease Liabilities
Balance at January 1, 2019	P34,264	P174,533	P3,457	P693
Changes from Financing Activities				
Proceeds from borrowings	539,424	28,121	-	-
Payments of borrowings	(528,855)	(10,456)	-	-
Cash dividends paid	-	-	(10,587)	-
Payments of lease liabilities	-	-	-	(45)
Total Change from Financing Activities	10,569	17,665	(10,587)	(45)
Effect of changes in foreign exchange rates	(83)	(4,061)	-	-
Cash dividends declared	-	-	10,524	-
Other changes	-	483	-	-
	(83)	(3,578)	10,524	-
Balance at December 31, 2019	P44,750	P188,620	P3,394	P648

28. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Company 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 Company include cash and cash equivalents, financial assets at FVOCI, short-term and long-term loans, and derivative instruments. These financial instruments, except derivative instruments, are used mainly for working capital management purposes. The trade-related financial assets and financial liabilities of the Company such as receivables, accounts payable and accrued expenses and lease liabilities arise directly from and are used to facilitate its daily operations.

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

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

The risk management policies of the Company are established to identify and analyze the risks faced by the Company, 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 Company, 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 Company's corporate governance process relating to the: a) quality and integrity of the separate 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 separate 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 Company 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 Company and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Company. 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 Company's exposure to changes in interest rates relates primarily to long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company 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 Company 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 Company invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Company 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 Company's financial instruments to various standard and non-standard interest rate scenarios.

The Company uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Company 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 Company 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 Company's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and

- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

December 31, 2020	**<1 Year**	**1-2 Years**	**>2-3 Years**	**>3-4 Years**	**>4-5 Years**	**>5 Years**	**Total**
Fixed Rate							
Philippine peso-denominated	**P160**	**P16,843**	**P13,306**	**P17,454**	**P2,599**	**P25,398**	**P75,760**
Interest rate	**6.9375%**	**4.8243% - 6.9375%**	**6.25% - 6.9375%**	**5.284% - 6.9375%**	**6.25% - 6.9375%**	**5.7613% - 7.125%**	**-**
Foreign currency-denominated (expressed in Philippine peso)	**-**	**-**	**24,798**	**-**	**-**	**-**	**24,798**
Interest rate	**-**	**-**	**4.875%**	**-**	**-**	**-**	**-**
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	**-**	**6,243**	**57,628**	**99,665**	**702**	**-**	**164,238**
Interest rate	**-**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**LIBOR + margin**	**-**	**-**
	P160	**P23,086**	**P95,732**	**P117,119**	**P3,301**	**P25,398**	**P264,796**

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	P10,160	P160	P16,843	P13,306	P17,454	P27,997	P85,920
Interest rate	5.25% - 6.9375%	6.9375%	4.8243% - 6.9375%	6.25% - 6.9375%	5.284% - 6.9375%	5.7613% - 7.125%	-
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	26,147	-	-	26,147
Interest rate	-	-	-	4.875%	-	-	
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	4,051	-	6,583	60,761	7,089	-	78,484
Interest rate	LIBOR + margin	-	LIBOR + margin	LIBOR + margin	LIBOR + margin	-	-
	P14,211	P160	P23,426	P100,214	P24,543	P27,997	P190,551

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Company's profit before tax (through the impact on floating rate borrowings) by P1,642 and P785 in 2020 and 2019, 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 Company's other comprehensive income.

Foreign Currency Risk

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

The following are the main sources of ineffectiveness in the hedge relationships:

- the effect of the counterparty's and the Company'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 Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	December 31, 2020		December 31, 2019	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	**US$2,566**	**P123,236**	US$1,494	P75,665
Receivables	**230**	**11,065**	234	11,847
	2,796	**134,301**	1,728	87,512
Liabilities				
Accounts payable and accrued expenses	**(5)**	**(235)**	5	261
Long-term debt	**(3,936)**	**(189,036)**	2,066	104,631
	(3,941)	**(189,271)**	2,071	104,892
Net Foreign Currency-denominated Monetary Liabilities	**(US$1,145)**	**(P54,970)**	(US$343)	(P17,380)

The Company reported net gains on foreign exchange amounting to P1,912 and P204 in 2020 and 2019, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

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

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Company'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 Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's other comprehensive income.

	December 31, 2020		December 31, 2019	
	Effect on Income before Income Tax		Effect on Income before Income Tax	
	P1 Decrease in the US Dollar Exchange Rate	**P1 Increase in the US Dollar Exchange Rate**	P1 Decrease in the US Dollar Exchange Rate	'1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	**(P2,566)**	**P2,566**	(P1,494)	P1,494
Receivables	**(230)**	**230**	(234)	234
	(2,796)	**2,796**	(1,728)	1,728
Accounts payable and accrued expenses	**5**	**(5)**	5	(5)
Long-term debt	**3,936**	**(3,936)**	2,066	(2,066)
	3,941	**(3,941)**	2,071	(2,071)
	P1,145	**(P1,145)**	P343	(P343)

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 Company's foreign currency risk.

<u>Commodity Price Risk</u>
Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Company enters into commodity derivative transactions on behalf of certain subsidiaries to reduce cost by optimizing purchasing synergies within the subsidiaries and managing inventory levels of common materials.

Commodity Swaps and Options. Commodity swaps and options are used to manage the exposures of certain subsidiaries to volatility in prices of certain commodities such as aluminum, fuel oil and coal.

<u>Liquidity Risk</u>
Liquidity risk pertains to the risk that the Company will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Company'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 Company 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 Company also uses derivative instruments such as forwards and swaps to manage liquidity.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management.

December 31, 2020	**Carrying Amount**	**Contractual Cash Flow**	**1 Year or Less**	**>1 Year - 2 Years**	**>2 Years**
Financial Assets					
Cash and cash equivalents	**P135,816**	**P135,816**	**P135,816**	**P -**	**P -**
Receivables - net	**88,562**	**88,562**	**88,562**	**-**	**-**
Derivative assets (included under "Prepaid expenses and other current assets" account)	**69**	**69**	**69**	**-**	**-**
Financial assets at FVOCI - net (included under "Investments and advances - net" account)	**87,049**	**87,049**	**-**	**-**	**87,049**
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	**3,864**	**3,864**	**-**	**-**	**3,864**
Financial Liabilities					
Loans payable	**23,950**	**23,965**	**23,965**	**-**	**-**
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	**10,415**	**10,415**	**10,415**	**-**	**-**
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**2,467**	**2,467**	**592**	**-**	**1,875**
Subscriptions payable	**2,710**	**2,710**	**2,710**	**-**	**-**
Long-term debt - net of debt issue costs (including current maturities)	**261,382**	**291,471**	**8,023**	**30,233**	**253,215**
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**596**	**795**	**105**	**109**	**581**

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years
Financial Assets					
Cash and cash equivalents	P88,350	P88,350	P88,350	P -	P -
Receivables - net	87,386	87,386	87,386	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	115	115	115	-	-
Financial assets at FVOCI - net (included under "Investments and advances - net" account)	75,808	75,808	-	-	75,808
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	3,048	3,048	-	-	3,048
Financial Liabilities					
Loans payable	44,750	44,843	44,843	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	10,060	10,060	10,060	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,004	2,004	897	-	1,107
Subscriptions payable	5,515	5,515	5,515	-	-
Long-term debt - net of debt issue costs (including current maturities)	188,620	224,831	22,668	8,208	193,955
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	648	900	103	106	691

<u>Credit Risk</u>

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

The Company 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 Company's counterparty 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 Company 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 Company ensures that sales on account are made to customers with appropriate credit history. The Company 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 Company only on a prepayment basis.

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

The table below presents the Company'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.

	December 31, 2020				
	Financial Assets at Amortized Cost				
	12-Month ECL	**Lifetime ECL not Credit Impaired**	**Lifetime ECL Credit Impaired**	**Financial Assets at FVPL**	**Total**
Cash and cash equivalents (excluding cash on hand)	**P135,812**	**P -**	**P -**	**P -**	**P135,812**
Receivables	**88,562**	**-**	**7,269**	**-**	**95,831**
Derivative assets	**-**	**-**	**-**	**69**	**69**
Noncurrent receivables	**-**	**3,864**	**253**	**-**	**4,117**
	P224,374	**P3,864**	**P7,522**	**P69**	**P235,829**

	December 31, 2019				
	Financial Assets at Amortized Cost				
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired	Financial Assets at FVPL	Total
Cash and cash equivalents (excluding cash on hand)	P88,346	P -	P -	P -	P88,346
Receivables	87,386	-	7,269	-	94,655
Derivative assets	-	-	-	115	115
Noncurrent receivables	-	3,048	253	-	3,301
	P175,732	P3,048	P7,522	P115	P186,417

The aging of receivables is as follows:

	December 31, 2020			December 31, 2019		
	Amounts Owed by Related Parties	**Non-trade Receivables**	**Total**	Amounts Owed by Related Parties	Non-trade Receivables	Total
Current	**P71,533**	**P17,029**	**P88,562**	P70,644	P16,742	P87,386
Over 90 days past due	**2,775**	**4,494**	**7,269**	2,775	4,494	7,269
	P74,308	**P21,523**	**P95,831**	P73,419	P21,236	P94,655

Majority of the receivables pertain to related party accounts that are not impaired, and are collectible. The Company 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.

Credit Quality
In monitoring and controlling credit extended to counterparty, the Company 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 Company.

The credit quality of financial assets is being managed by the Company using internal credit ratings. Credit quality of the financial assets were determined as follows:

High grade includes deposits or placements with reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets, collectively amounting to P135,881 and P88,461 as at December 31, 2020 and 2019, respectively.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and The Company's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include receivables and noncurrent receivables, collectively amounting to P99,948 and P97,956 as at December 31, 2020 and 2019, respectively.

Receivables with high probability of delinquency and default were fully provided with allowance for impairment losses.

Other Market Price Risk
The Company's market price risk arises from its investments carried at fair value (financial assets at FVOCI). The Company manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

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

The Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity such as treasury stock and equity reserve are excluded from capital for purposes of capital management.

The Company 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 separate 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 Company's business, operation and industry.

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

The Company is not subject to externally imposed capital requirement.

29. Financial Assets and Financial Liabilities

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

	December 31, 2020		December 31, 2019	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	**P135,816**	**P135,816**	P88,350	P88,350
Receivables - net	**88,562**	**88,562**	87,386	87,386
Derivative assets (included under "Prepaid expenses and other current assets" account)	**69**	**69**	115	115
Financial assets at FVOCI - net (included under "Investments and advances - net" account)	**87,049**	**87,049**	75,808	75,808
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	**3,864**	**3,864**	3,048	3,048
Financial Liabilities				
Loans payable	**23,950**	**23,950**	44,750	44,750
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	**10,415**	**10,415**	10,060	10,060
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**2,467**	**2,467**	2,004	2,004
Subscriptions payable	**2,710**	**2,710**	5,515	5,515
Long-term debt - net of debt issue costs (including current maturities)	**261,382**	**274,675**	188,620	198,562
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	**596**	**596**	648	648

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

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

Derivatives. The fair values of derivative instruments are based on quotes obtained from the counterparties.

Financial Assets at FVOCI. The fair values of publicly traded equity instruments are based on quoted market prices in an active market. For equity 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, Accounts Payable and Accrued Expenses and Subscriptions Payable. The carrying amount of loans payable, accounts payable and accrued expenses and subscriptions payable approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt and Lease Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 0.9% to 2.8% and 3.1% to 4.4% as at December 31, 2020 and 2019, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 1.6% and 1.6% to 2.0% as at December 31, 2020 and 2019, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Company's derivative financial instruments according to the type of financial risk being managed and the details of freestanding 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 Company 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 Financial Instruments Accounted for as Cash Flow Hedges

Cross Currency Swap

As at December 31, 2020 and 2019, the Company has outstanding cross currency swap with notional amount of US$250 and US$220, respectively, designated to hedge foreign currency and interest rate exposures on the US dollar-denominated five-year floating rate loan maturing up to 2024. The Company pays fixed peso interest and receives floating interest based on LIBOR plus margin. The cross currency swap has negative fair value of P1,875 and P1,107, included under "Other noncurrent liabilities" account, as at December 31, 2020 and 2019, respectively.

The hedges were assessed to be effective as the critical terms of the hedged items match the hedging instruments. No ineffectiveness was recognized in the separate statements of income.

The table below provides a reconciliation of the components of equity and analysis of other comprehensive income items, net of tax, resulting from cash flow hedge accounting.

	2020		2019	
	Hedging Reserve	**Cost of Hedging Reserve**	Hedging Reserve	Cost of Hedging Reserve
Balance at beginning of year	**(P803)**	**P381**	(P538)	P419
Changes in fair value of derivatives	**(1,501)**	**258**	(894)	(54)
Amount reclassified to profit or loss:				
Losses on foreign exchange	**653**	**-**	296	-
Interest expense and other financing charges	**474**	**-**	219	-
Tax effect	**112**	**(77)**	114	16
Balance at end of year	**(P1,065)**	**P562**	(P803)	P381

Derivative Financial Instruments Not Designated as Hedges

The Company 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 separate statements of income. Details are as follows:

Freestanding Derivatives

Freestanding derivatives consist of interest rate, foreign currency and commodity derivatives entered into by the Company.

Interest Rate Swap

As at December 31, 2019, the Company has outstanding interest rate swap with notional amount of US$300. Under the agreement, the Company receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P730 as at December 31, 2019.

Currency Options

The Company has outstanding currency options with an aggregate notional amount of US$925 and US$1,278, as at December 31, 2020 and 2019, respectively, and with various maturities in 2021 and 2020. The negative fair value of these currency options amounted to P523 and P53 as at December 31, 2020 and 2019, respectively.

Commodity Swaps

The Company has outstanding swap agreements covering the fuel oil, aluminum and coal requirements of subsidiaries, with various maturities in 2021 and 2020. Under the agreement, payment is made either by the Company or its counterparty for the difference between the hedged fixed price and the relevant price index.

The notional quantity of fuel oil is 18,000 and 18,281 metric tons as at December 31, 2020 and 2019, respectively. The positive (negative) fair value of these swaps on fuel oil amounted to P30 and (P23) as at December 31, 2020 and 2019, respectively.

The notional quantity of coal is 90,000 metric tons as at December 31, 2019. The positive fair value of these swaps on coal amounted to P1 as at December 31, 2019.

The Company has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

As at December 31, 2020, the Company has no outstanding commodity swaps on the purchase of coal and aluminum.

The Company recognized marked-to-market gains (losses) from freestanding derivatives amounting to (P1,752) and P178 in 2020 and 2019, respectively.

Fair Value Changes on Derivatives

The net movements in fair value of all derivative instruments are as follows:

	2020	2019
Balance at beginning of year	**(P1,889)**	(P1,491)
Net change in fair value of derivatives:		
Designated as accounting hedges	**(1,243)**	(947)
Not designated as accounting hedges	**(1,752)**	178
	(4,884)	(2,260)
Less fair value of settled instruments	**(2,486)**	(371)
Balance at end of year	**(P2,398)**	(P1,889)

Fair Value Hierarchy
Financial assets and financial liabilities measured at fair value in the separate statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities (Note 3).

The table below analyzes financial instruments carried at fair value by valuation method:

	December 31, 2020			December 31, 2019		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
Financial Assets						
Derivative assets	**P -**	**P69**	**P69**	P -	P115	P115
Financial assets at FVOCI	**978**	**86,071**	**87,049**	1,147	74,661	75,808
Financial Liabilities						
Derivative liabilities	**-**	**2,467**	**2,467**	-	2,004	2,004

The Company has no financial instruments valued based on Level 3 as at December 31, 2020 and 2019. In 2020 and 2019, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurement.

30. Events After the Reporting Date

a. *Investment in Petrogen Insurance Corporation (Petrogen)*

On December 3, 2020, the BOD and stockholders of Petrogen approved to increase its authorized capital stock from P750 divided into 750,000 common shares to P2,250 divided into 2,250,000 common shares, both with a par value of P1,000.00 per common share. On the same date, the respective BOD of Petrogen and the Company approved the subscription of the Company to 1,494,973 common shares to be issued out of the increase in authorized capital stock of Petrogen for a total subscription price of P3,000 or P2,006.73 per share. The Subscription Agreement was executed on January 5, 2021.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on January 27, 2021 and was approved on February 4, 2021.

As a result, Petrogen became 74.94% directly owned by the Company, in addition to the indirect equity interest of 17.11% through Petron or a total of 92.05% equity interest.

b. *Investment in GSMI*

On December 1, 2020, the BOD of GSMI approved the redemption of the 32,786,885 outstanding preferred shares held by SMC equivalent to 10.27%. equity interest in GSMI. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. On January 4, 2021, GSMI paid the redemption price of P1,000 or P30.50 per share and all accumulated unpaid cash dividends.

c. Redemption of Subseries “2-G” Preferred Shares

On March 11, 2021, the BOD of the Company approved the redemption of all the outstanding Subseries “2-G” Preferred Shares totaling 66,666,600 shares on March 30, 2021. The redemption price shall be the issue price of P75.00 per share, plus any accumulated unpaid cash dividends.

The shares redeemed shall not be considered retired and may be re-issued by the 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 Company and upon the approval of the application for lifting of trading suspension by the Company and in accordance with the listing rules of the PSE.

31. Other Matters

a. Contingencies

The Company 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 separate financial statements of the Company.

- SEC Case

  On September 10, 2018, the Company, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing the Company, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the “Petitioner”) against the Company, 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 the Company involving the transfer of the Company’s common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from an increase in SMFB’s capital stock, and (b) SMFB’s Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

  On February 19, 2019, the SEC Special Hearing Panel dismissed the Petition for lack of merit. The motion for reconsideration filed by the Petitioner was denied on June 10, 2019.

  On July 4, 2019, an appeal memorandum was filed by the Petitioner with the SEC *En Banc.* SMC, SMFB and GSMI filed their respective comments on the appeal.

  On September 14, 2020, the Company received a favorable decision from the SEC En Banc denying the appeal memorandum filed by the Petitioner, and affirming the decision of the SEC Special Hearing Panel dated February 19, 2019.

- Deficiency Excise Tax/Excess Excise Tax Payments

  In 2004, the Company was assessed excise taxes by the BIR on “San Mig Light” which at that time was one of its products. These assessments were contested by the Company but nonetheless made the corresponding payments. Consequently, the 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 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 Company, granting the latter’s claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from February 1, 2004 to November 30, 2005. After unsuccessfully having the decision reconsidered, the BIR represented by the Office of the Solicitor General elevated the cases to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

  On the *Second Claim for Refund*. On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the 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 Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA En Banc and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

On January 25, 2017, the Supreme Court, consolidating the First and Second Claims for refund, decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period of December 1, 2005 to July 31, 2007, and P782 for the period of February 2, 2004 to November 30, 2005. The motions for reconsideration filed by the OSG were denied and the decision became final. On April 4, 2019, the Writ of Execution in CTA Case No. 7708 was issued by the Court and subsequently served on the BIR Commissioner, and on April 11, 2019, the Writ of Execution in CTA Case No. 7405 (consolidated with CTA Cases Nos. 7052 and 7053) was also issued and served on the Commissioner.

The BIR issued Tax Credit Certificates No. 121-20-00012 and 121-20-00013 amounting to P782 and P926, respectively in favor of SMC on September 8, 2020. As at December 31, 2020, the Tax Credit was not yet applied in any of the Company's tax obligations.

On the Third Claim for Refund. CTA Case No. 7953 was consolidated with CTA Case No. 7973 filed by SMB, which consolidated cases were subsequently decided in favor of the Company and SMB by the CTA Third Division, ordering the BIR to refund to them the joint amount of P934.

On August 10, 2020, the BIR issued Tax Credit Certificate No. 121-20-00010 amounting to P105 in favor of SMC. P44 out of P105 was partially applied to the Company's 2020 tax obligations.

b. *Tax-free Asset-for-share Agreements*

The following are the tax-free asset-for-share agreements as confirmed by BIR:

- SMFB

  On April 5, 2018, the Company and SMFB signed the Deed of Exchange of Shares pursuant to which the Company will transfer to SMFB, its 7,859,319,270 common shares of the capital stock of SMB and 216,972,000 common shares of the capital stock of GSMI. As consideration for the acquisition by SMFB of the Exchange Shares, SMFB issued in favor of the Company 4,242,549,130 new common shares of the capital stock of SMFB on June 29, 2018, upon approval by the SEC of the increase in authorized capital stock of SMFB.

  As the issuance of the New Shares resulted in SMFB's public ownership level falling below the minimum ten percent (10%) requirement under the PSE Amended Rule on Minimum Public Ownership ("MPO Rule"), the PSE suspended the trading of SMFB's common and preferred shares (collectively, the "SMFB Shares") commencing July 6, 2019 and until SMFB is able to secure a favorable ruling/opinion from the BIR on the appropriate taxes to be imposed on the trades of SMFB Shares through the PSE for a period not exceeding six months (the "MPO Exemption Period").

On July 20, 2019, SMFB received BIR Ruling No. 1092-2019, granting temporary exemption from the MPO Rule and states that the Share Swap and the follow-on offer of common shares and all trades of SMFB Shares through the PSE during the period not exceeding six months are not subject to capital gains tax of 15% under RR No. 16-2012 as amended by RR No. 11-2019 (TRAIN Law), and that the stock transaction tax at the rate of six-tenths of one percent (6/10 of 1%) shall be imposed on all trades through the PSE of SMFB Shares during the same period. The temporary exemption is effective until December 31, 2019.

On July 23, 2019, the PSE lifted the trading suspension of SMFB Shares.

The tax-free exchange between SMFB and the Company was confirmed by the BIR in its Certification No. SN: 010-2019 dated October 12, 2019. On October 31, 2019, 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, 2019 (Note 7).

- SMPFC

In September 2007, the applications for the approval of the transfer and SMPFC's increase in its authorized capital stock and confirmation of valuation of shares of the Company in San Miguel Foods, Inc., Magnolia Inc. and Monterey Foods Corporation given by way of payment for the shares of SMPFC was approved by the SEC. Following SEC's approval, SMPFC issued 70,865,078 shares to the Company in November 2007 out of its unissued shares and increase in authorized capital stock. This resulted to an increase in the Company's ownership from 99.83% to 99.92%.

The tax-free exchange between SMPFC and the Company was confirmed by the BIR in its Certification No. SN: 029-2008 dated February 1, 2008.

- SMB

On September 27, 2007, the SEC approved the transfer of the domestic beer business net assets to SMB and the increase in the authorized capital stock from P100 to P25,000.

Shares totaling 15,308,416,960, were issued to the Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its Certification No. SN: 300-2007 dated October 9, 2007.

- Iconic Beverages, Inc. (IBI)

On February 27, 2009, the SEC approved the transfer of the Company's IP rights to IBI and the increase in the authorized capital stock of IBI. Shares totaling 100,000,000 were issued to the Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its Certification No. SN: 405-2008 dated December 24, 2008. On April 29, 2009, the Company sold its 100% interest in IBI to SMB for a total purchase price of P32,000. Following such sale, IBI became a wholly-owned subsidiary of SMB.

- Brewery Properties Inc. (BPI)

  On September 10, 2009, the SEC approved the increase in the par value of BPI's common shares and the increase in its authorized capital stock. With such approval, the transfer of: (i) the certain parcels of land (used in the domestic beer business of SMB) of the Company to BPI in exchange for additional common shares from the existing unissued authorized capital stock of BPI and increase in authorized capital stock; and (ii) the common shares of San Miguel Brewery Inc. Retirement Plan (SMBRP) in Brewery Landholdings, Inc. (BLI) to BPI as payment for SMBRP's subscription to BPI preferred shares were also approved by the SEC. The transfer was under a tax-free asset-for-share agreement, as confirmed by the BIR in its Certification No. SN: 121-2009.

- SMBIL

  On August 17, 2009, the Company assigned its international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights ("International IP Rights") used in connection with the international beer business of the Company and its international subsidiaries valued at US$31.5 to SMIL. Common shares totaling 2,863,636 were issued to the Company under a tax-free asset-for-share agreement, as confirmed by the BIR in its Certification No. SN: 233-2009.

  On December 18, 2009, SMB's BOD approved the purchase of the international beer and malt-based beverages business of the Company through the purchase of the shares of San Miguel Holdings Ltd. (SMHL) in SMBIL, comprising 100% of the issued and outstanding capital stock of SMBIL (SMBIL Shares), with an enterprise value of US$300. The BOD of the Company likewise approved the sale of its international beer and malt-based beverage business to SMB, through the sale by SMHL, its wholly-owned subsidiary, of the SMBIL Shares to SMB, on the same day. On the same date, the Company, SMB and SMHL entered into a Share Purchase Agreement (SPA) for the SMBIL Shares.

  On December 21, 2009, SMIL's BOD approved the assignment of International IP Rights to SMHL valued at US$31.5 in exchange for 286,363 SMHL common shares. The assignment was also approved by SMHL's BOD on the same date.

  Also on the same date, SMHL's BOD approved the assignment of International IP Rights to SMBIL valued at US$31.5 in exchange for 2,863,636 SMBIL shares. The assignment was also approved by SMBIL's BOD on the same date.

- Packaging Businesses

  In December 2005, the Company started the consolidation of its packaging business through SMYPC [formerly San Miguel Packaging Specialists, Inc. (SMPSI)]. The Company assigned to SMPSI the property, plant and equipment of its Packaging Division, under a tax-free asset-for-share arrangement, as confirmed by the BIR in its Certification No. SN: 051-2006 dated March 14, 2006, with fair value totaling P1,633 and its shares of stock in Premium Packaging International, Inc., Rightpak International Corporation and San Miguel Yamamura Ball Corporation, in a tax-free equity-for-share basis, totaling P1,250. Advances of the Company to SMPSI amounting to P2,250 were converted to equity in October 2005.

c. Effect of COVID-19

The Company and its subsidiaries have been affected by the lockdown, different quarantine restrictions, liquor bans and travel restrictions implemented by the government in the first half of 2020.

The government's relaxation of the quarantine restrictions starting mid-May had an immediate positive effect on the operations of the Company's subsidiaries. The subsidiaries posted consolidated net income in the second half, 15% higher than the same period last year, reversing the losses incurred in the first half. The improvement of the performance in the second half was mainly brought about by the sustained performance recoveries from all major subsidiaries. Sales volumes of SMB and GSMI significantly improved and Petron, in particular, bounced back to profitability. Demand for power continued to increase with the opening of more commercial and industrial establishments. Traffic volumes on operating toll roads have also improved.

Sales and operating income of the Company's subsidiaries in 2020 were still lower than 2019 despite the recoveries in the second half.

d. Commitments

The outstanding purchase commitments of the Company amounted to P244 and as at December 31, 2020.

Amount authorized but not yet disbursed for capital projects is approximately P620 as at December 31, 2020.

e. Foreign Exchange Rates

The foreign exchange rates used in translating the US dollar monetary assets and liabilities to Philippine peso were closing rates of P48.02 and P50.64 in 2020 and 2019, respectively, for separate statements of financial position accounts; and average rates of P49.62 and P51.79 in 2020 and 2019, respectively, for income and expense accounts.

f. Certain amounts 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.

33. Supplementary Information Required under RR No. 15-2010

BIR has issued RR No. 15-2010 which requires certain tax information to be disclosed in the notes to the separate financial statements. The Company presented the required supplementary tax information as a separate schedule attached to its annual income tax return.

C O V E R   S H E E T

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

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

No. 40 San Miguel Avenue

Mandaluyong City

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

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
35,207	Second Tuesday of June	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Bella O. Navarra		8632-3000	

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.*