



SAN MIGUEL CORPORATION

NOTICE OF REGULAR MEETING OF STOCKHOLDERS

June 30, 2020

The Regular Meeting of the Stockholders of San Miguel Corporation will be held on **Tuesday, June 30, 2020 at 2:00 P.M.**

The meeting will be conducted via remote communication and livestreamed at the Company's website.

The Agenda of the Meeting is as follows:

1. Certification of Notice and Quorum
2. Approval of the Minutes of the Regular Stockholders' Meeting held on June 11, 2019
3. Presentation of the Annual Report
4. Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
5. Approval of Directors' Fees for 2019
6. Appointment of External Auditors
7. Election of the Board of Directors
8. Other Matters
9. Adjournment

For the health and safety of the stockholders and all persons concerned in light of the risks associated with the COVID-19 pandemic, the Company will not hold a physical meeting and will instead conduct the meeting livestream, which will be livestreamed in the Company's website. Stockholders can therefore only attend the meeting by remote communication.

Stockholders who would like to attend the online meeting should access the 2020 SMC AGSM Website at <https://www.sanmiguel.com.ph/articles/smc-asm-0630> to obtain the following: (a) the minutes of the 2019 Regular Stockholders' Meeting and resolutions of the Board of Directors beginning January 1, 2019 which will be available online beginning May 30, 2020; (b) ballots and proxies to attend the meeting, and (c) the link to view the livestream of the meeting which will be available on the day of the meeting

During the meeting, the Company shall entertain questions and comments from the stockholders after the presentation of the Annual Report. Questions and comments must be submitted either in advance or during the meeting by email to stockholders@sanmiguel.com.ph. Questions which were not answered during the meeting shall be forwarded to the Office of the Corporate Secretary for the appropriate response.

Ballots and proxies can be submitted via email at stockholders@sanmiguel.com.ph, which submission shall be duly acknowledged and validated by the SMC Stock Transfer Service Corporation. For individual stockholders, the submissions must be accompanied by a copy of a government issued ID as proof of identification. For corporations, the submission must be accompanied by a certification from its Corporate Secretary stating the corporate officer's authority to represent and sign on behalf of the corporation. In the event that the enhanced community quarantine or any of its forms which restricts the movement of persons and make it difficult to obtain notarization at the time of submission, the Secretary's Certificate, ballots and proxies need not be notarized. Kindly submit to the SMC Stock Transfer Service Corporation the original signed and notarized documents within a reasonable time after the resumption of regular business operations.

The deadline for submission of ballots and proxies is on **June 15, 2020**. Validation of ballots and proxies will be on **June 22, 2020** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Ave., Mandaluyong City, Philippines.

Virgilio S. Jacinto
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

<u> </u>	Preliminary Information Statement
<u> √ </u>	Definitive Information Statement

2. Name of Registrant as specified in its charter **SAN MIGUEL CORPORATION**

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

4. SEC Identification No. **PW 000277**

5. BIR Tax Identification No. **000-060-741-000**

6. Address of principal office Postal Code
No. 40 San Miguel Avenue, Mandaluyong City 1550

7. Registrant's telephone number, including area code **(02) 8632-3000**

8. Date, Time and Place of the meeting of security holders
Tuesday, June 30, 2020 at 2:00 P.M. via livestreaming

9. Approximate date on which the Information Statement is first to be sent or given to security holders
June 3, 2020

10. Name of Person Filing the Statement: **San Miguel Corporation**
Address: **40 San Miguel Ave., Mandaluyong City 1550**
Telephone No.: **(02) 632-3000**

11. Securities registered pursuant to Sections 8 and 12 of the SRC

Title of Each Class	Number of Shares of Common and Preferred Stock Outstanding and approximate Debt Outstanding (as of March 31, 2020)
Common Shares	2,383,896,588
Series 1 Preferred Shares	279,406,667
Series "2-C" Preferred Shares	255,559,400
Series "2-D" Preferred Shares	89,333,400
Series "2-E" Preferred Shares	134,000,100
Series "2-F" Preferred Shares	223,333,500
Series "2-G" Preferred Shares	66,666,600
Series "2-H" Preferred Shares	164,000,000
Series "2-I" Preferred Shares	<u>169,333,400</u>
TOTAL	3,765,529,655

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

Yes [☒] No [☐]

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

Philippine Stock Exchange

- (a) Common Shares**
- (b) Series "1" Preferred Shares¹**
- (c) Series "2" Preferred Shares – 2-A²**
- (d) Series "2" Preferred Shares – 2-B³**
- (e) Series "2" Preferred Shares – 2-C**
- (f) Series "2" Preferred Shares – 2-D**
- (g) Series "2" Preferred Shares – 2-E**
- (h) Series "2" Preferred Shares – 2-F**
- (i) Series "2" Preferred Shares – 2-G**
- (j) Series "2" Preferred Shares – 2-H**
- (k) Series "2" Preferred Shares – 2-I**

¹ The Series "1" preferred shares of the Company were redeemed on April 14, 2020 and subject to trading suspension following their redemption.

² Subject to trading suspension following their redemption on September 21, 2015.

³ Subject to trading suspension following their redemption on September 23, 2019.

INFORMATION STATEMENT

GENERAL INFORMATION

Date, Time and Place of Annual Meeting

The annual stockholders' meeting of **San Miguel Corporation** (the "Company" or "SMC") will be held on **June 30, 2020 at 2:00 p.m.** via livestreaming. The complete mailing address of the principal office of the Company is No. 40 San Miguel Avenue, Mandaluyong City, 1550, Metro Manila, Philippines.

The information statement is first to be sent to security holders approximately on **June 3, 2020**. The information statement together with its attachments shall be available at the Company's website, and the PSE Edge Portal. The Notice of the Meeting shall be published in the business section of two (2) newspaper of general circulation, in print and online format, for two (2) consecutive days.

YOU ARE NOT REQUESTED TO SEND US A PROXY.

Revocability of Proxies

A person giving a proxy may revoke it at any time before it is exercised. A proxy may be revoked through any of the following means: (1) filing with the Corporate Secretary, at least ten (10) working days before the scheduled meeting, a written notice revoking it; or (2) attending the meeting and voting in person. Mere attendance at the meeting will not automatically revoke a proxy.

Dissenters' Right of Appraisal

Under Title X of the Revised Corporation Code, stockholders dissenting from and voting against the proposed corporate action specified in Section 80 of the Revised Corporation Code, may, within thirty (30) days, from the date on which the vote was taken, exercise the right of appraisal by making a written demand on the Company for payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporate action. These specific corporate actions are as follows: (a) amendment to the corporation's articles and By-laws which has the effect of (i) changing and restricting the rights of any shareholder or class of shares, (ii) authorizing preferences in any respect superior to those of outstanding shares of any class, or (iii) extending or shortening of term of corporate existence; (b) sale, lease, mortgage or other disposition of all or substantially all of the corporation's assets; (c) merger or consolidation; and (d) investment of corporate funds in another corporation or business or for any purpose other than its primary purpose.

There are no corporate matters or actions at the 2020 annual stockholders' meeting that will entitle dissenting stockholders to exercise their right of appraisal as provided by Title X and other relevant provisions of the Revised Corporation Code.

SOLICITATION INFORMATION

The Company is not soliciting proxies. A proxy form is provided to the stockholders of the Company and included in this Information Statement.

Interest of Certain Persons in Matters to be Acted Upon

No director, nominee for election as director, associate of the nominee or executive officer of the Company at any time since the beginning of the last fiscal year has had any substantial interest, direct or indirect, by security holdings or otherwise, in any of the matters to be acted upon in the meeting, other than election to office. None of the incumbent directors has informed the Company in writing of an intention to oppose any action to be taken by the Company at the meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of March 31, 2020, the Company had the following outstanding shares of stock:

<u>Title of Each Class</u>	<u>Number of Shares of Common and Preferred Stock Outstanding as of March 31, 2020</u>	
Common Shares	<u>2,383,896,588</u>	
SUB-TOTAL (Common Shares)		2,383,896,588
Series 1 Preferred Shares	279,406,667	
Series “2-A” Preferred Shares	0	
Series “2-B” Preferred Shares	0	
Series “2-C” Preferred Shares	255,559,400	
Series “2-D” Preferred Shares	89,333,400	
Series “2-E” Preferred Shares	134,000,100	
Series “2-F” Preferred Shares	223,333,500	
Series “2-G” Preferred Shares	66,666,600	
Series “2-H” Preferred Shares	164,000,000	
Series “2-I” Preferred Shares	<u>169,333,400</u>	
SUB-TOTAL (Preferred Shares)		<u>1,472,061,267</u>
TOTAL Outstanding Shares		3,765,529,655

As of March 31, 2020, the following is the foreign ownership of the shares of stock of the Company:

<u>Share Class</u>	<u>Foreign Shares</u>	<u>Percentage of Foreign Ownership</u>	<u>Local Shares / Shares held by Filipinos</u>	<u>Percentage of Filipino Ownership</u>	<u>Total Shares Outstanding</u>
Common	59,666,497	2.50%	2,324,230,091	97.50%	2,383,896,588
Preferred Shares Series 1	0	0.00%	279,406,667	100.00%	279,406,667
Preferred Shares “2-A”	0	0.00%	0	0.00%	0
Preferred Shares “2-B”	0	0.00%	0	0.00%	0
Preferred Shares “2-C”	1,410,000	0.55%	254,149,400	99.45%	255,559,400
Preferred Shares “2-D”	442,930	0.50%	88,890,470	99.50%	89,333,400
Preferred Shares “2-E”	814,352	0.61%	133,185,748	99.39%	134,000,100
Preferred Shares “2-F”	1,901,242	0.85%	221,432,258	99.15%	223,333,500
Preferred Shares “2-G”	456,675	0.69%	66,209,925	99.31%	66,666,600
Preferred Shares “2-H”	1,384,694	0.84%	162,615,306	99.16%	164,000,000
Preferred Shares “2-I”	2,132,420	1.26%	167,200,980	98.74%	169,333,400
TOTAL	68,208,810	1.81%	3,697,320,845	98.19%	3,765,529,655

A stockholder entitled to vote at the meeting has the right to vote in person or by proxy. Only stockholders of record at the close of business on May 29, 2020 will be entitled to vote at the meeting. With respect to the election of directors, in accordance with Section 23, Title III of the Revised Corporation Code of the Philippines, a stockholder may vote the number of common shares held in his name in the Company's stock books as of May 29, 2020, and may vote such number of common shares for as many persons as there are directors to be elected or he may cumulate said common shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his common shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; Provided, That the total number of votes cast by him shall not exceed the number of common shares owned by him as shown in the books of the Company multiplied by the total number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company is computed as follows: **number of common shares held on record as of record date multiplied by 15 directors.**

The deadline for submission of proxies is on **June 15, 2020**. Validation of proxies will be on **June 22, 2020** at 10:00 a.m. at the SMC Stock Transfer Service Corporation Office, 2nd Floor, SMC Head Office Complex, No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

Owners of more than 5% of the Company's voting⁴ securities (both common and preferred shares) as of April 30, 2020 are as follows:

Title of Class	Name, Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Top Frontier Investment Holdings Inc. ⁵ 5 th Floor, ENZO Bldg., No. 339 Sen. Gil Puyat, Makati City	Iñigo Zobel, Filipino, Director of the Company, and Ramon S. Ang, Filipino, the President and Chief Operating Officer of the Company, are beneficial owners of 59.96% and 26.03% ⁶ of the outstanding common stock of Top Frontier, respectively.	Filipino	1,573,100,340	45.12%
Common	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	209,734,733	34.30%
Series "2" Preferred Shares	PCD Nominee Corporation (Filipino) Makati City	Various individuals/ Entities	Filipino	986,149,910	
Common	Privado Holdings, Corp. Room 306 Narra Building, 2776 Pasong Tamo Extension, Makati City	Ramon S. Ang, Filipino, as beneficial owner of 100% of the outstanding capital stock of Privado. ⁷	Filipino	373,623,796 ⁸	10.72%

⁴ Common stockholders have the right to vote on all matters requiring stockholders' approval. The holders of the Series "2" Preferred Shares shall not be entitled to vote except in matters provided for in the Revised Corporation Code: amendment of Articles of Incorporation; adoption and amendment of By-laws; sale, lease exchange, mortgage, pledge, or other disposition of all or substantially all of the corporate property; incurring, creating or increasing bonded indebtedness; increase or decrease of capital stock; merger or consolidation with another corporation or other corporations; investment of corporate funds in another corporation or business; and dissolution.

⁵ The shares owned by Top Frontier Investment Holdings, Inc. are voted, in person or by proxy, by its authorized designate. As of December 31, 2019, Top Frontier Investment Holdings, Inc. has voting rights to a total of 1,573,100,340 common shares of the Company which represent about 66.03% of the outstanding common capital stock of the Company.

⁶ As of December 31, 2019, through Privado Holdings, Corp and Master Year Limited, both stockholders of record of Top Frontier.

⁷ As of March 31, 2020.

⁸ Inclusive of 368,140,516 common shares held in the name of Privado Holdings Corp. and 5,483,280 common shares which are lodged with the PDTC.

The following are the number of shares comprising the Company's capital stock (all of which are voting shares) owned of record by the Chief Executive Officer, directors, key officers of the Company, and nominees for election as director as of April 30, 2020:

Name of Owner	Amount and Nature of Ownership		Citizenship	Total No. of Shares
	Common	Preferred		
Eduardo M. Cojuangco, Jr.	3,828,702 (D)		Filipino	3,828,702 (0.11%)
Ramon S. Ang	1,345,429 (D) 373,623,796 (I) ⁹ 235,335,950 (I) ¹⁰ 174,180,260 (I) ¹¹ 358,615 (I) ¹²		Filipino	448,584,050 (32.922%)
Leo S. Alvez	10,000 (D) 9,326 (I)		Filipino	19,326 (0.00%)
Aurora T. Calderon	22,600 (D)		Filipino	22,600 (0.00%)
Joselito D. Campos, Jr.	9,149 (D)		Filipino	9,149 (0.00%)
Reynaldo G. David	5,000 (D)		Filipino	5,000 (0.00%)
Menardo R. Jimenez	5,000 (D)		Filipino	5,000 (0.00%)
Estelito P. Mendoza	31,972 (D)		Filipino	31,972 (0.00%)
Alexander J. Poblador	5,000 (D)		Filipino	5,000 (0.00%)
Reynato S. Puno	5,000 (D)		Filipino	5,000 (0.00%)
Jose C. de Venecia	5,000 (D)		Filipino	5,000 (0.00%)
Thomas A. Tan	5,000 (D)	400,000 (D)	Filipino	5,000 (0.00%)
Margarito B. Teves	5,000 (D)		Filipino	5,000 (0.00%)
Ramon F. Villavicencio	35,000(D) 9,000 (I)			44,000 (0.00%)
Iñigo Zobel	16,171 (D) 943,230,964 (I) ¹³		Filipino	943,247,135 (39.57%)
Ferdinand K. Constantino	477,692 (D)	200,000 (D)	Filipino	677,692 (0.02%)
Virgilio S. Jacinto	180,830 (D)		Filipino	180,830 (0.01%)
Joseph N. Pineda	62,715 (I)		Filipino	62,715 (0.00%)
Sergio G. Edeza	62 (D)		Filipino	62 (0.00%)

(D) – direct

(I) – indirect

The aggregate number of shares directly owned of record by the Chief Executive Officer, Chief Operating Officer, key officers and directors as a group as of April 30, 2020 is 6,273,648 shares or approximately 0.1800% of the Company's outstanding capital stock.

Voting Trust

There is no person holding more than 5% of the Company's voting securities under a voting trust arrangement.

Changes in Control

The Company is not aware of any change of control or arrangement that may result in a change in control of the Company since the beginning of its last fiscal year.

⁹ Through his 100% shareholdings in Privado Holdings Corp.

¹⁰ Through his direct shareholdings in Master Year Limited which has shares in Top Frontier Investment Holdings, Inc. which in turn has shares in the Company.

¹¹ Through his direct shareholdings in Privado Holdings Corp. which has shares in Top Frontier Investment Holdings, Inc. which in turn has shares in the Company.

¹² Through his direct shareholdings in Top Frontier Investment Holdings, Inc. which has shares in the Company.

¹³ Through his 59.96% shareholdings in the common stock of Top Frontier Investment Holdings, Inc.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers

The names of the incumbent and nominee directors and key executive officers of the Company, and their respective ages, periods of service, directorships in other reporting companies and positions held in the last five (5) years, are as follows:

Board of Directors

Name	Age	Citizenship	Position
Eduardo M. Cojuangco, Jr.....	84	Filipino	Chairman and Chief Executive Officer
Ramon S. Ang.....	66	Filipino	Vice Chairman, President and Chief Operating Officer
Estelito P. Mendoza.....	90	Filipino	Director
Leo S. Alvez.....	77	Filipino	Director
Aurora T. Calderon.....	65	Filipino	Director
Joselito D. Campos, Jr.....	69	Filipino	Director
Jose De Venecia, Jr.	83	Filipino	Director
Menardo R. Jimenez.....	87	Filipino	Director
Alexander J. Poblador.....	66	Filipino	Director
Thomas A. Tan.....	66	Filipino	Director
Ramon F. Villavicencio.....	78	Filipino	Director
Iñigo U. Zobel.....	63	Filipino	Director
Reynaldo G. David.....	77	Filipino	Independent Director
Reynato S. Puno.....	79	Filipino	Independent Director
Margarito B. Teves.....	76	Filipino	Independent Director

Eduardo M. Cojuangco, Jr. is the Chairman of the Board and Chief Executive Officer of the Company, a position he has held since July 7, 1998. He is also the Chairman of the Executive Committee of the Company. He also holds the following positions in other publicly listed companies: Chairman of the Board and Chief Executive Officer of Ginebra San Miguel Inc.; and Chairman of the Board of San Miguel Food and Beverage, Inc. and Petron Corporation. He is also the Chairman of the Board of ECJ & Sons Agricultural Enterprises, Inc., and Eduardo Cojuangco, Jr. Foundation, Inc., and a Director of Caiñaman Farms, Inc. He attended the University of the Philippines – Los Baños College of Agriculture and California Polytechnic College in San Luis, Obispo, U.S.A.

Ramon S. Ang is the Vice Chairman since January 28, 1999, President and Chief Operating Officer since March 6, 2002 of the Company. He is also a Member of the Executive Committee of the Company. He also holds, among others, the following positions in other publicly listed companies: President and Chief Executive Officer of Top Frontier Investment Holdings Inc. and Petron Corporation; President of Ginebra San Miguel, Inc.; Chairman of the Board of Directors of San Miguel Brewery Hong Kong Limited (listed in the Hong Kong Stock Exchange), Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia) and Eagle Cement Corporation; and Vice Chairman of the Board, President and Chief Executive Officer of San Miguel Food and Beverage, Inc. He is also the Chairman of the Board of San Miguel Brewery Inc.; Chairman of the Board and Chief Executive Officer and President and Chief Operating Officer of SMC Global Power Holdings Corp.; Chairman of the Board and President of San Miguel Holdings Corp., San Miguel Equity Investments Inc., San Miguel Properties, Inc., and San Miguel Aerocity Inc.; Chairman of the Board and Chief Executive Officer of SMC Asia Car Distributors Corp.; Chairman of the Board of San Miguel Foods, Inc., San Miguel Yamamura Packaging Corporation, Clariden Holdings, Inc., Anchor Insurance Brokerage Corporation, Philippine Diamond Hotel & Resort, Inc. and SEA Refinery Corporation; President of San Miguel Northern Cement, Inc. and President and Chief Executive Officer of Northern Cement Corporation. He is also the sole director and shareholder of Master Year Limited and the Chairman of the Board of Privado Holdings, Corp. He formerly held the following positions: Chairman of the Board of Liberty Telecoms Holdings, Inc. and Cyber Bay Corporation, President and Chief Operating Officer of PAL Holdings, Inc. and Philippine Airlines, Inc.; Director of Air Philippines

Corporation; and Vice Chairman of the Board and Director of Manila Electric Company. Mr. Ang has held directorships in various domestic and international subsidiaries of SMC in the last five years. He has a Bachelor of Science degree in Mechanical Engineering from Far Eastern University.

Estelito P. Mendoza was first elected as a Director of the Company on October 30, 1991 and served until April 21, 1993. He was re-elected as Director of the Company on April 21, 1998 up to the present. He is a Member of the Executive Committee and the Audit and Risk Oversight Committee of the Company. He is also a Director of Petron Corporation, and Philippine National Bank. He was formerly a director of the Manila Electric Company and Philippine Airlines, Inc. Atty. Mendoza, a former Solicitor General, Minister of Justice, Member of the Batasang Pambansa and Governor of the Province of Pampanga, heads the E.P. Mendoza Law Office, and was also formerly Chairman of the Board of Dutch Boy Philippines, Inc. and Alcorn Petroleum and Minerals Corporation, and Director of East-West Bank. He graduated from the University of the Philippines College of Law cum laude. He also holds a Master of Laws degree from Harvard Law School.

Leo S. Alvez has been a Director of the Company since February 27, 2002 and a Member of the Audit and Risk Oversight Committee of the Company. He is also a Director of Ginebra San Miguel, Inc., Chairman of its Nominations and Hearing Committee and Member of its Executive Compensation Committee and Audit and Risk Oversight Committee; and a former Director of San Miguel Pure Foods Company, Inc., both of which are publicly listed companies. Ret. Major General Alvez is a former Security Consultant to the Prosecution Panel of the Senate Impeachment Trial of President Joseph Estrada (2000-2001), Vice Commander of the Philippine Army (1998), and Division Commander of the 7th Infantry Division (1996-1998). He is a graduate of the Philippine Military Academy and has a Masters in Business Administration degree from the University of the Philippines.

Aurora T. Calderon has been a director of the Company since June 10, 2014. She is also the Senior Vice President-Senior Executive Assistant to the President and Chief Operating Officer of SMC since January 20, 2011. She is a member of the Corporate Governance Committee of the Company. She holds the following positions in other publicly listed companies, namely: Director and Treasurer of Top Frontier Investment Holdings, Inc.; and Director of San Miguel Food and Beverage, Inc., Ginebra San Miguel, Inc., Petron Corporation and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). She is also a member of the Board of Directors of SMC Global Power Holdings Corp., Petron Marketing Corporation, Petron Freeport Corporation, New Ventures Realty Corporation, Las Lucas Construction and Development Corporation, Thai San Miguel Liquor Company Limited, San Miguel Equity Investments Inc., SMC Asia Car Distributors Corp., San Miguel Yamamura Packaging Corp., and San Miguel Aerocity Inc. She was formerly a Director of PAL Holdings, Inc., Philippine Airlines, Inc., Trustmark Holdings Corporation, Zuma Holdings and Management Corporation, Air Philippines Corporation, and Manila Electric Company. A certified public accountant, Ms. Calderon graduated *magna cum laude* from the University of the East with a degree in BS Business Administration, major in Accountancy. In addition, Ms. Calderon holds directorships in various SMC domestic and international subsidiaries.

Joselito D. Campos, Jr. has been a Director since May 31, 2010. He is a member of the Related Party Transactions Committee of the Company. He is the Managing Director, Chief Executive Officer and member of the Board of Directors of Del Monte Pacific Ltd.; President and Chief Executive Officer of Del Monte Philippines, Inc. He is also the Chairman of the Board and Chief Executive Officer of the NutriAsia Group of Companies; Chairman of the Board of Fort Bonifacio Development Corp.; and Vice Chairman of the Board of Ayala Greenfield Development Corp. He is also a Director of FieldFresh Foods (Pvt.) Ltd. He was the former Chairman of the Board and Chief Executive Officer of United Laboratories, Inc. and its regional subsidiaries and affiliates. He is also the Honorary Consul General in the Philippines for the Republic of Seychelles. He is Chairman of the Metropolitan Museum of Manila and a Trustee of the Asia Society in the Philippines, the Philippines-China Business Council, the Philippine Center for Entrepreneurship

and a member of the WWF (World Wildlife Fund) for Nature - Philippines. He graduated with a degree in BS Commerce, major in International Business from the University of Santa Clara, California and a Masters in Business Administration degree from Cornell University, New York.

Jose C. De Venecia, Jr. is a Director of the Company since March 16, 2017. He was former Speaker of the House of Representatives (from 1992 to 1998, and from 2001 to 2008). Before joining politics, he was an international entrepreneur, engaged in the business of port operations in Saudi Arabia, agriculture in Africa, mass housing in Iraq and oil exploration in the United Arab Emirates. He has a Bachelor of Arts degree in Journalism from the Ateneo de Manila University. He completed his secondary education at De La Salle College, Manila.

Menardo R. Jimenez has been a Director of the Company since February 27, 2002 and a Member of the Executive Committee and Corporate Governance Committee of the Company. He is also a Director of San Miguel Food and Beverage, Inc., a publicly listed company, and Magnolia, Inc. His other positions include: Chairman of Majent Management and Development Corporation; Chairman of Coffee Bean and Tea Leaf Holdings, Inc., and Meedson Properties Corporation, among others. He is a graduate of Far Eastern University with a degree of Bachelor of Science in Commerce and is a certified public accountant.

Alexander J. Poblador has been a Director of the Company since September 1, 2009 and a Member of the Related Party Transactions Committee of the Company. He is the Founding Partner and Chairman of the Executive Committee of Poblador Bautista & Reyes Law Office. Atty. Poblador is a practicing lawyer, specializing in the fields of commercial litigation, international arbitration, real estate finance and project development, bankruptcy and corporate reorganization. He is a graduate of the University of the Philippines with a degree in Bachelor of Laws *cum laude*, class valedictorian and placed third in the 1978 bar examinations, and Bachelor of Arts in Political Science *cum laude*. He also holds a Master of Laws degree from the University of Michigan, at Ann Arbor, School of Law (De Witt Fellow).

Thomas A. Tan was elected as a Director of the Company on June 14, 2012. He is the President and General Manager of SMC Shipping and Lighterage Corporation and President of Saturn Cement Corporation and Sakamoto International Packaging Corp. He obtained a degree in Bachelor of Science, Major in Physics in 1974 from the Ateneo de Manila University and a Masters in Business Management degree from the Asian Institute of Management in 1976. He is likewise a Director of other affiliates of the Company.

Ramon F. Villavicencio is a Director of the Company since March 15, 2018. Prior to his election as director of the Company, he owns the ICVI Financial Consultancy Services, has ownership interests in JoyToAll Amusement Corporation and is a consultant of Petro Finance Services, Inc. He graduated from De La Salle College with a degree in Bachelor of Science in Commerce and a Masters in Business Administration.

Iñigo Zobel has been a Director of the Company since October 2009 and was an Independent Director of the Company from May 5, 1999 until October 2009. He is a Member of the Executive Committee of the Company. He holds the position of Chairman of the Board of Top Frontier Investment Holdings Inc., a publicly listed company. He is also the Chairman of the Board and President of Zygnet Prime Holdings Inc.; Chairman of the Board of IZ Investment Holdings, Inc. and E. Zobel, Inc.; Director of E. Zobel Foundation, Inc. Calatagan Golf Club, Inc., Calatagan Bay Realty, Inc., Hacienda Bigaa, Inc., MERMAC, Inc., among others. He was formerly Chairman (2015-2016), Vice Chairman (since 2016) and President (since 2015) of Manila North Harbour Port, Inc., a Director of PAL Holdings, Inc. and Philippine Airlines, Inc., and President and Chief Operating Officer of Air Philippines Corporation. He was formerly an Independent Director of San Miguel Brewery Inc., San Miguel Pure Foods Company, Inc., San Miguel Properties, Inc., and Ginebra San Miguel, Inc. He attended Santa Barbara College, California, U.S.A.

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

Reynato S. Puno was elected to the Board as an Independent Director of the Company on January 20, 2011 and is the Chairman of the Corporate Governance Committee and a Member of the Audit and Risk Oversight Committee of the Company. He is also an independent director of San Miguel Brewery Hong Kong Ltd. (a company publicly listed in the Hong Kong Stock Exchange) and Union Bank of the Philippines, Inc., and a member of the Board of Commissioners of PT Delta Djakarta Tbk (a company listed in the Indonesia Stock Exchange). He is also the Chairman of the Environmental Heroes Foundation and World Vision; Vice Chairman of the Board of the GMA Kapuso Foundation; and Director of The New Standard newspaper. He was the Chief Justice of the Supreme Court from December 6, 2006 until his retirement on May 17, 2010. He joined the Supreme Court as an Associate Justice on June 1993 and was previously Associate Justice of the Court of Appeals (1980, 1986 to 1993), Appellate Justice of the Intermediate Appellate Court (1983), Assistant Solicitor General (1974-1982) and City Judge of Quezon City (1972-1974). He also served as Deputy Minister of Justice from 1984-1986. He completed his Bachelor of Laws from the University of the Philippines in 1962, and has a Master of Laws degree from the University of California in Berkeley (1968) and a Master in Comparative Law degree from the Southern Methodist University, Dallas, Texas (1967).

Margarito B. Teves was elected as an Independent Director of the Company on June 14, 2012 and is the Chairman of the Audit and Risk Oversight Committee and a Member of the Corporate Governance Committee and Related Party Transactions Committee of the Company. He is also an Independent Director of Petron Corporation, a publicly listed company, Atlantic Aurum Investments Philippine Corporation, AB Capital Investment Corp., Alphaland Corporation, Alphaland Balesin Island Club, Inc., The City Club at Alphaland Makati Place, Inc., and Atok-Big Wedge Corporation. He is also the Managing Director of The Wallace Business Forum and Chairman of the Board of Think Tank Inc. He was Secretary of the Department of Finance of the Philippine government from 2005 to 2010, and was previously President and Chief Executive Officer of the Land Bank of the Philippines from 2000 to 2005, among others. He holds a Master of Arts in Development Economics from the Center for Development Economics, Williams College, Massachusetts and is a graduate of the City of London College, with a degree of Higher National Diploma in Business Studies which is equivalent to a Bachelor of Science in Business Economics.

Officers

Name	Age	Citizenship	Position
Ferdinand K. Constantino	68	Filipino	Chief Finance Officer and Treasurer
Virgilio S. Jacinto	63	Filipino	Senior Vice President – General Counsel, Compliance Officer and Corporate Secretary
Joseph N. Pineda	56	Filipino	Senior Vice President – Deputy Chief Finance Officer
Aurora T. Calderon	65	Filipino	Senior Vice President – Senior Executive Assistant to the Office of the President and Chief Operating Officer
Sergio G. Edeza	62	Filipino	Senior Vice President – Head of Treasury
Lorenzo G. Formoso III	58	Filipino	Senior Vice President – Head of SMC Infrastructure Business

Ferdinand K. Constantino was a Director of the Company from May 31, 2010 to February 28, 2018. He is the Chief Finance Officer and Treasurer of the Company. He also holds, among others, the following positions in other publicly-listed companies, as follows: Director of Top Frontier Investment Holdings Inc. and Petron Malaysia Refining & Marketing Bhd. (a company publicly listed in Malaysia). He is also the Director and Vice Chairman of the Board of SMC Global Power Holdings Corp., President of Anchor Insurance Brokerage Corporation; Director of San Miguel Brewery Inc., San Miguel Yamamura Packaging Corporation, San Miguel Pure Foods International Ltd., Citra Metro Manila Tollways Corporation, San Miguel Aerocity Inc. and Northern Cement Corporation; Director and Chief Finance Officer of San Miguel Northern Cement, Inc.; and Chairman of the San Miguel Foundation, Inc. He was formerly a Director of PAL Holdings, Inc., and Philippine Airlines, Inc. Mr. Constantino previously served San Miguel Corporation as Chief Finance Officer of the San Miguel Beer Division (1999-2005) and as Chief Finance Officer and Treasurer of San Miguel Brewery Inc. (2007-2009); Director of San Miguel Pure Foods Company, Inc. (2008-2009); Director of San Miguel Properties, Inc. (2001-2009); and Chief Finance Officer of Manila Electric Company (2009). He has held directorships in various domestic and international subsidiaries of the Company during the last five years. He holds a degree in AB Economics from the University of the Philippines and completed academic requirements for an MA Economics degree.

Virgilio S. Jacinto is the Corporate Secretary, Senior Vice-President and General Counsel and Compliance Officer of the Company (since October 2010). He is also the Corporate Secretary and Compliance Officer of Top Frontier Investment Holdings, Inc. and Corporate Secretary of Ginebra San Miguel, Inc. and other subsidiaries and affiliates of SMC. He is a Director of Petron Corporation. He was formerly the Vice President and First Deputy General Counsel from 2006 to 2010 and appointed as General Counsel of the Company in 2010. He was Director and Corporate Secretary of United Coconut Planters Bank, Partner at Villareal Law Offices and Associate at SyCip, Salazar, Feliciano & Hernandez Law Office. Atty. Jacinto is an Associate Professor at the University of the Philippines, College of Law. He obtained his law degree from the University of the Philippines *cum laude* where he was the class salutatorian and placed sixth in the 1981 bar examinations. He holds a Master of Laws degree from Harvard Law School. He holds various directorships in various local and offshore subsidiaries of SMC.

Joseph N. Pineda is the Senior Vice President and Deputy Chief Finance Officer of SMC. He was formerly Vice President prior to his promotion on July 27, 2010 and has been the Deputy Chief Finance Officer since December 2005. He was previously Special Projects Head of SMC since January 2005. He is a director of Philippine Dealing System Holdings, Corp. Mr. Pineda has a degree of Bachelor of Arts in Economics from San Beda College and obtained units towards a Masters in Business Administration degree from De La Salle University. In addition, Mr. Pineda holds directorships in various SMC domestic and international subsidiaries.

Sergio G. Edeza is the Senior Vice President and Head of Treasury of SMC. Prior to joining SMC, Mr. Edeza was a Director of Merchant's Bank (2008), President (2007) and Director (2008) of Money Market Association of the Philippines, Executive Vice President and Treasurer of Rizal Commercial Banking Corporation, Treasury Consultant of YGC Corporate Services, and President and CEO of PhilEXIM Guarantee Corporation. He was also Treasurer of the Republic of the Philippines from February 16, 2001 to February 16, 2004. Mr. Edeza is a Certified Public Accountant and a Career Service Professional. He obtained his Bachelor of Science in Commerce degree and Master of Business Administration degree from the De La Salle University, and was accepted at the John F. Kennedy School of Government at Harvard University. Mr. Edeza holds directorships in various SMC subsidiaries

Lorenzo G. Formoso III is the Senior Vice President and Head of the Infrastructure Business. Atty. Formoso holds various directorships in various local and offshore subsidiaries of SMC. Previously, he was a consultant of the Company for Infrastructure and Transportation from July 2009 to August 2010. He was previously Assistant Secretary of the Department of Transportation and Communication of the Philippine Government from September 2006 to June 2009 and Deputy Commissioner of the Commission on Information and Communications Technology for the same period. He obtained his Juris Doctor degree from University of California, Davis School of Law and a degree in Bachelor of Arts in Philosophy from the University of the Philippines. Atty. Formoso is a director in various SMC subsidiaries.

Term of Office

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

The nominees for election to the Board of Directors on June 30, 2020 are as follows:

1. Eduardo M. Cojuangco, Jr.
2. Ramon S. Ang
3. Leo S. Alvez
4. Aurora T. Calderon
5. Joselito D. Campos, Jr.
6. Jose C. de Venecia, Jr.
7. Menardo R. Jimenez
8. Estelito P. Mendoza
9. Alexander J. Poblador
10. Thomas A. Tan
11. Ramon F. Villavicencio
12. Iñigo Zobel
13. Reynaldo G. David – Independent Director
14. Reynato S. Puno – Independent Director
15. Margarito B. Teves – Independent Director

Independent Directors

The incumbent independent directors of the Company are as follows:

1. Reynaldo G. David
2. Reynato S. Puno – Lead Independent Director
3. Margarito B. Teves

The incumbent directors have certified that they possess all the qualifications and none of the disqualifications provided for in the SRC. The Certifications of the incumbent directors are attached hereto as **Annexes “A-1”, “A-2”, and “A-3”**.

The nominees for election as independent directors of the Board of Directors on June 30, 2020 are as follows:

Nominee for Independent Director (a)	Person/Group recommending nomination (b)	Relation of (a) and (b)
Reynaldo G. David	Ramon S. Ang	None
Reynato S. Puno	Ramon S. Ang	None
Margarito B. Teves	Ramon S. Ang	None

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

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

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

Under Section 2, Article III of the Company's By-laws, (i) any stockholder having at least five thousand (5,000) shares registered in his name may be elected Director, and (ii) a person engaged in any business which competes with or is antagonistic to that of the Company as defined in Section 2, Article III of the Company's By-laws is not qualified or eligible for nomination or election to the Board of Directors.

All the nominees for election to the Board of Directors satisfy the mandatory requirements specified under the provisions of Section 2, Article III of the Company's By-laws.

Significant Employees

The Company has no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Family Relationships

There are no family relationships up to the fourth civil degree either by consanguinity or affinity among the Company's directors, executive officers or persons nominated or chosen by the Company to become its directors or executive officers.

Certain Relationships and Related Transactions

There were no transactions with directors, officers or any principal stockholders (owning at least 10% of the total outstanding shares of the Company) which are not in the Company's ordinary course of business.

Involvement in Certain Legal Proceedings

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

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate compensation paid or incurred during the last two (2) fiscal years and estimated to be paid in the ensuing fiscal year to the Chief Executive Officer and four (4) senior executive officers of the Company are as follows:

NAME	YEAR	SALARY	BONUS	OTHERS	TOTAL
Total Compensation of the Chief Executive Officer and Senior Executive Officers ¹⁴	2020 (estimated)	P225.7 Million	P186.4 Million	P26.4 Million	P438.5 Million
	2019	P222.6 Million	P141.1 Million	P48.6 Million	P412.3 Million
	2018	P208.7 Million	P213.3 Million	P46.1 Million	P468.1 Million
All other officers and directors as a group unnamed	2020 (estimated)	P259.0 Million	P92.0 Million	P63.5 Million	P414.5 Million
	2019	P258.5 Million	P92.6 Million	P63.2 Million	P414.3 Million
	2018	P233.9 Million	P115.6 Million	P59.1 Million	P408.6 Million
Total	2020 (estimated)	P484.7 Million	P278.4 Million	P89.9 Million	P853.0 Million
	2019	P481.1 Million	P233.7 Million	P111.8 Million	P826.6 Million
	2018	P442.6 Million	P328.9 Million	P105.2 Million	P876.7 Million

Section 10 of the Amended By-laws of the Company provides that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting therefrom general expenses, remuneration to officers and employees, depreciation on buildings, machineries, transportation units, furniture and other properties. Such compensation shall be apportioned among the directors in such manner as the Board deems proper. The Company provides each director with reasonable per diem of ₱50,000 and ₱20,000 for each Board and Committee meeting attended, respectively. In 2019 and 2018, the members of the Board of Directors of the Company were paid an aggregate amount of ₱72,39 million.

The Long-Term Incentive Plan for Stock Options (“LTIP”) of the Company grants stock options to eligible senior and key management officers of the Company as determined by the Committee administering the said Plan. Its purpose is to further and promote the interests of the Company and its shareholders by enabling the Company to attract, retain and motivate senior and key management officers, and to align the interests of such officers and the Company’s shareholders.

On March 1, 2007, the Company approved the grant of options to 822 executives consisting of 18.31 million shares. On June 25, 2009 and June 26, 2008, the Company approved

¹⁴ The Chief Executive Officer and senior executive officers of the Company for 2019, 2018 and 2017 are Eduardo M. Cojuangco, Jr., Ramon S. Ang, Ferdinand K. Constantino, Aurora T. Calderon, and Virgilio S. Jacinto.

the grant of options to 755 executives consisting of 5.777 million shares and to 742 executives consisting of 7.46 million shares, respectively.

As of March 31, 2020, there are no more outstanding options under the LTIP held by the Chief Executive Officer and Senior Executive Officers of the Company, and officers and middle managers as a group.

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

	<u>2018</u>	<u>2019</u>	<u>2020</u> (as of March 31, 2020)
Outstanding	0	0	0
Exercised	1,630,873	0	0
Cancelled	151,917	0	0

There were no employment contracts between the Company and a named executive officer. There were neither compensatory plans nor arrangements with respect to a named executive officer.

ACTION WITH RESPECT TO REPORTS

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

1. Management Report of the Company for the year ended December 31, 2019;
2. Minutes of the 2019 Annual Stockholders' Meeting with the following items:
 - (a) Certification of Notice and Quorum
 - (b) Approval of the Minutes of the Regular Stockholders' Meeting held on June 14, 2018
 - (c) Presentation of the Annual Report
 - (d) Ratification of Acts and Proceedings of the Board of Directors and Corporate Officers
 - (e) Approval of Directors' Fees for 2018
 - (f) Appointment of External Auditors
 - (g) Election of the Board of Directors
 - (h) Other Matters
 - (i) Adjournment
3. Ratification of all the acts of the Board of Directors and Officers since the 2019 Annual Stockholders' Meeting which include:
 - a) adoption of Material Related Party Transactions Policy;
 - b) issuance of Php10 billion peso-denominated fixed rate bonds out of the shelf-registered Php60 billion peso-denominated fixed rate bonds;
 - c) redemption of 90,428,200 Series "2" Preferred Shares –Subseries B at a redemption price of P75.00 per share plus any unpaid cash dividends;
 - d) (i) the purchase by the Corporation of 5% of San Miguel Yamamura Asia Corporation; (ii) the merger of San Miguel Yamamura Asia Corporation with San Miguel Yamamura Packaging Corporation ("SMYPC"), where SMYPC will be the surviving entity; and (iii) the delegation of authority to management to determine the relevant terms and conditions of any deed, agreement or document required to give effect to the proposed transactions;

- e) consent solicitation to secure the approval of the holders of the Company's Philippine Peso bonds traded on the Philippine Dealing & Exchange Corp., and its U.S.\$800,000,000 4.875% Notes Due 2023 to align the covenants and provisions of the Notes with the relevant covenants and provisions of: (i) the recently issued ₱10 billion retail bond of the Company in the Philippines, and (ii) the recently contracted U.S.\$1.75 billion dollar denominated syndicated term loan facility;
- f) additional equity investment in Bank of Commerce ("BOC") amounting to Php5.5 billion in support of the application of BOC for an upgrade of its commercial banking license to a universal banking license;
- g) establishment of a medium term note programme amounting to US\$3 billion (the "Programme"), and the issuance of US\$500 million perpetual securities out of the Programme;
- h) Approval of the shelf registration with the Securities and Exchange Commission ("SEC") of Php60 billion short term commercial papers, and the initial issuance of such commercial papers amounting to Php15 billion with an oversubscription option of Php5 billion;
- i) declaration of cash dividends for the common shares, the Series "1", and the Series "2" Preferred Shares;
- j) appointment of corporate officers; and
- k) approval of signing authorities and limits.

Copies of the Minutes of the 2019 Annual Stockholders' Meeting and resolutions of the Board of Directors since the date of the 2019 Annual Stockholders' Meeting will be available for viewing and examination at [insert URL]. A copy of the Minutes of the 2019 Annual Stockholders' Meeting is also attached hereto as **Annex "D"**. The Minutes, among others, contain the following information:

1. Voting and vote tabulation procedures used in the 2019 meeting (page 1);
2. A list of the directors or trustees, officers and stockholders or members who attended the meeting (page 1);
3. The questions and answers discussed during the open forum (pages 5 and 6);
2. The matters discussed and resolutions reached (pages 2 to 9); and
3. A record of the voting results for each agenda item (pages 10 to 11)

VOTING PROCEDURES

For the election of directors, the 15 nominees with the greatest number of votes will be elected as directors.

Shareholders vote by ballot, and approved by the majority of the shareholders present or represented at the meeting as the method of voting for any or all of the proposals or matters submitted to a vote at the meeting.

In all proposals or matters for approval except for election of directors, each share of stock entitles its registered owner (who is entitled to vote on such particular matter) to one vote. In case of election of directors, cumulative voting as set out in page 4 of this Information Statement shall be adopted. Counting of the votes will be done by the Corporate Secretary or Assistant Corporate Secretaries with the assistance of the independent auditors and the stock transfer agent of the Company.

FINANCIAL AND OTHER INFORMATION

Brief Description of the General Nature and Business of the Company

San Miguel Corporation (SMC, the Parent Company), together with its subsidiaries (collectively referred to as the Group), is one of the largest and most diversified conglomerates in the Philippines by revenues and total assets, with sales that accounts for about 5.5% of the Philippine gross domestic product in 2019.

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

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

SMC, through its subsidiaries and affiliates, has become a Philippine market leader in its businesses with 44,024 regular employees and more than 100 production facilities in the Asia-Pacific region as of December 31, 2019. SMC products include beer, spirits, non-alcoholic beverages (NAB), poultry, animal feeds, flour, fresh and processed meats, dairy products, coffee, various packaging products and a full range of refined petroleum products, most of which are market leaders in their respective markets. In addition, SMC contributes to the growth of downstream industries and sustains a network of hundreds of third party suppliers.

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

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

Description of Businesses

Core Businesses

Food and Beverage

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

SMFB has three primary operating segments - (i) beer and NAB, (ii) spirits, and (iii) food. The Beer and NAB Segment and the Spirits Segment comprise the beverage business (the “Beverage business”). SMFB operates its Beverage business through San Miguel Brewery Inc. and its subsidiaries (“SMB” or the “Beer and NAB Segment”), and Ginebra San Miguel Inc. and its subsidiaries (“GSMI” or the “Spirits Segment”). The Food business (the “Food Segment”) is managed through a number of other subsidiaries, including San Miguel Foods, Inc. (SMFI), Magnolia, Inc., (Magnolia) and The Purefoods-Hormel Company, Inc. (Purefoods-Hormel). SMFB serve the Philippine archipelago through an extensive distribution and dealer network and export its products to almost 60 markets worldwide.

Beer and NAB Segment

The Beer and NAB Segment is the largest producer of beer in terms of both sales and volume in the Philippines, offering a wide array of beer products across various segments and markets. Top beer brands in the Philippines include *San Miguel Pale Pilsen*, *Red Horse*, *San Mig Light* and *Gold Eagle*. Its flagship brand, *San Miguel Pale Pilsen*, has a history of over 128 years and was first produced by La Fabrica de Cerveza de San Miguel, which started as a single brewery producing a single product in 1890 and has evolved through the years to become the diversified conglomerate that is SMC. The Beer and NAB Segment also produces non-alcoholic beverages such as ready-to-drink tea, ready-to-drink juice and carbonates.

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

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

SMB discontinued the production of *Magnolia Purewater* (bottled water) in plastic bottles in line with SMC’s initiative to reduce its environmental footprint and support a sustainable business model.

San Miguel Brewing International Limited and its subsidiaries (“SMBIL”) also offers the *San Miguel Pale Pilsen* and *San Mig Light* brands in Hong Kong, China, Thailand, Vietnam, Indonesia and most export markets, *Red Horse* in Thailand, China, Hong Kong, Vietnam and selected export markets, and *Cerveza Negra* in Hong Kong, China, Vietnam, Indonesia, United States, Thailand, South Korea and Taiwan, in addition to locally available brands: *Valor* (Hong Kong), *Blue Ice* (Hong Kong), *Dragon* and *Guang’s* (South China), *Blue Star* (North China), *WIN Bia* (Vietnam) and *Anker* and *Kuda Putih* (Indonesia).

Spirits Segment

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

GSMI has a diverse product portfolio that caters to the varied preference of the local market. Core brands *Ginebra San Miguel* and *Vino Kulafu*, the leading brands in the gin and Chinese wine categories, combined for 97% of GSMI's total revenues. The other products that complete the liquor business of GSMI comprise about 3% of its total revenues. These products are available nationwide while some are exclusively exported to select countries.

GSMI products are also exported primarily to markets with a high concentration of Filipino communities such as the United Arab Emirates, Taiwan, Vietnam, Hong Kong and the U.S. and certain brands are produced for export only, including *Tondeña Gold Rum*, *Tondeña Manila Rum*, *Gran Matador Solera*, *Gran Reserva Brandy*, *Gran Matador Gold* and *Añejo Dark Rum 5 years*. In addition, distilled spirits are sold and distributed in Thailand through GSMI's joint venture with Thai Life Group of Companies via Thai Ginebra Trading Company Limited.

Food Segment

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

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

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

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

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

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

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

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

b) ***Animal Nutrition and Health*** - The Animal Nutrition and Health segment produces integrated feeds and veterinary medicines. The operating subsidiary for the Animal Nutrition and Health segment is SMFI. Commercial feed products include hog feeds, layer feeds, broiler feeds, gamefowl feeds, aquatic feeds, branded feed concentrates and specialty and customized feeds. These feeds are sold and marketed under various brands such as *B-Meg*, *B-Meg Premium*, *Integra*, *Expert*, *Dynamix*, *Essential*, *Pureblend*, *Bonanza* and *Jumbo*.

c) ***Protein*** - SMFI is also the operating subsidiary for the Protein segment, which sells poultry and fresh meats products. The poultry business operates a vertically-integrated production process that spans from breeding broilers to producing and marketing chicken products, primarily for retail. Its broad range of chicken products is sold under the *Magnolia* brand, which includes fresh-chilled or frozen whole and cut-up products. A wide variety of fresh and easy-to-cook products are sold through the *Magnolia Chicken Stations*. The poultry business also sells customized products to foodservice and export clients, supplies supermarket house brands, serves chicken products to wet markets through distributors and sells live chickens to dealers.

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

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

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

The flour milling business offers a variety of flour products that includes bread flour, noodle flour, biscuit and cracker flour, all-purpose flour, cake flour, whole wheat flour, customized flour and flour premixes, such as pancake mix, cake mix, brownie mix, pan de sal mix, and rice cake mix. The business pioneered the development of customized flours for specific applications, such as noodles and *pan de sal*, a soft bread commonly eaten in the Philippines for breakfast. Flour products are sold under 19 brand names which enjoy strong brand loyalty among its institutional clients and other intermediaries, such as bakeries and biscuit manufacturers.

The international operations of the Food Segment are located in Indonesia and Vietnam. PT San Miguel Pure Foods Indonesia (formerly PT Pure Foods Suba Indah) (PTSMPFI) is a 75:25 joint venture with PT Hero Intiputra of Indonesia. San Miguel Pure Foods Investment (BVI) Limited, which operates San Miguel Pure Foods (Vn) Co., Ltd. (SMPFVN) in Vietnam, is a wholly-owned subsidiary of San Miguel Pure Foods International, Limited. Both PTSMPFI and SMPFVN are in the business of production and marketing of processed meats which are sold under the Farmhouse and Vida brands in Indonesia and under the Le Gourmet brand in Vietnam.

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

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

Packaging

The packaging business began operations in 1938 with the establishment of a glass plant that supplied glass bottles for the beer and non-alcoholic beverage products of SMC. Collectively called as the Packaging Group, the business is comprised of San Miguel Yamamura Packaging Corporation ("SMYPC"), San Miguel Yamamura Packaging International Limited ("SMYPIL") and their respective subsidiaries which are both joint venture companies between SMC and NYG, one of the largest glass and plastic packaging corporations in Japan, San Miguel Yamamura Asia Corporation¹⁵ ("SMYAC"), the largest glass manufacturer in the Philippines and also a joint venture company of SMC and NYG, SMC Yamamura Fuso Molds Corp. ("SYFMC"), the manufacturer of glass and plastics molds in the country, Can Asia, Inc. ("CAI"), a pioneer in the production of two-piece aluminum cans, Mindanao Corrugated Fireboard, Inc. ("Mincorr"), a paper corrugated carton manufacturer and Wine Brothers Philippines Corp., involved in the sale and distribution of wine products.

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

The Packaging Group holds 17 international packaging companies, particularly, located in China (glass, plastic and paper packaging products), Vietnam (glass and metal), Malaysia (composite, plastic films, woven bags and radiant/thermal liners), Australia (trading, wine closures and bottle caps and wine filling services and distribution) and New Zealand (plastics and trading).

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

SMYPC owns all of the domestic plants of the Packaging Group, except the corrugated carton plant Mincorr, which is 100% owned by SMC and SMYAC, a joint venture between SMC and NYG. Both Mincorr and SMYAC are being managed by SMYPC. SMYPIL's subsidiaries are the Packaging Group's international facilities.

¹⁵ The application for the merger between SMYPC and SMYAC, with SMYPC as the surviving company, (the "Merger") was filed on October 25, 2019 with the Securities and Exchange Commission (the "SEC"). On February 24, 2020, the SEC issued the Certificate of Merger approving the Merger. The effective date of the Merger is March 01, 2020, in accordance with Clause 5.5 of the Plan of Merger. Accordingly, by operation of law, SMYAC has ceased to exist. Both Mincorr and SMYAC are being managed by SMYPC.

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

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

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

In 2017, SMYA acquired all of the issued share capital of Portavin Holdings Pty Ltd., Barrosa Bottling Services Pty Ltd. and Best Bottlers Pty Ltd., through its subsidiaries SMYP Pty Ltd., SMYB Pty Ltd and SMYBB Pty Ltd. These acquisitions strengthened SMYA's business in Australia and expanded its product base to include wine filling services, serving the growing wine markets in the Australasia region and in China.

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

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

Real Estate

Established in 1990 as the corporate real estate arm of SMC, San Miguel Properties Inc. (“SMPI”) is aiming to be one of the major players in the property sector through mixed-use developments. SMPI is 99.95% owned by SMC and is primarily engaged in the development, sale and lease of real property. SMPI is also engaged in leasing and managing the real estate assets of SMC.

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

Cavite Projects

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

Wedge Woods

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

Bel Aldea

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

Maravilla

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

Asian Leaf

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

Metro Manila Projects

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

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

Dover Hill

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

One Dover View & Two Dover View

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

Emerald 88

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

Makati Diamond Residences

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

Mariveles Economic Zone Project

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

Boracay Gateway Project

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

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

Fuel and Oil

SMC operates its fuel and oil business through Petron Corporation (Petron), which is involved in refining crude oil and marketing and distribution of refined petroleum products mainly in the Philippines and Malaysia. Petron is the number one integrated oil refining and marketing company in the Philippines. Petron participates in the reseller (service station), industrial, lube and liquefied petroleum gas sectors. In addition, Petron is also engaged in non-fuels business by earning income from billboards and locators, situated within the premises of the service stations.

Petron owns and manages the most extensive oil distribution infrastructure in the Philippines. Petron has over 2,400 retail service stations in the Philippines and approximately 680 retail service stations in Malaysia, as of December 31, 2019. Petron also exports various petroleum products and petrochemical feedstock, including naphtha, mixed xylene, benzene, toluene and propylene, to customers in the Asia-Pacific region.

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

Energy

The energy business, which is conducted through SMC Global Power Holdings Corp. (SMC Global), together with its subsidiaries, associates and joint ventures, is one of the leaders in the Philippine power generation industry, controlling 4,347 MW of combined capacity as of December 31, 2019. This combined capacity will increase to 4,682 MW following the expected commencement of commercial operations of Masinloc Power Plant Unit 3 (currently undergoing commissioning and expected to commence commercial operations in 2020, upon receipt of its certificate of compliance from the Energy Regulatory Commission (“ERC”). SMC Global Power currently benefits from a diversified power portfolio, including natural gas, coal, and hydroelectric power, and is expected to benefit soon from battery energy storage systems (“BESS”). This portfolio includes (1) the power plants subject of the Independent Power Producer Administration (“IPPA”) Agreements, specifically the 1000 MW Sual Coal Fired Power Plant in Sual, Pangasinan, the 1200 MW Ilijan Natural Gas Fired Combined Cycle Power Plant in Ilijan, Batangas, and the 345 MW San Roque Multipurpose Hydroelectric Power Plant in San Roque, Pangasinan, being managed by San Miguel Energy Corporation (“SMEC”), South Premiere Power Corp. (“SPPC”) and Strategic Power Devt. Corp. (“SPDC”), respectively, which are wholly-owned subsidiaries of SMC Global Power, (2) the 218 MW Angat Hydroelectric Power Plant in Angat, Bulacan, owned by Angat Hydropower Corporation (“AHC”), whose outstanding capital stock is 60% owned by SMC Global Power through its wholly owned subsidiary, PowerOne Ventures Energy Inc. (“PVEI”), (3) the 1 x 330 MW (Unit 1), 1 x 344 MW (Unit 2) and 1 x 335 MW (Unit 3) coal-fired power plants, Unit 3 being an expansion project nearing project completion (together, comprising the “Masinloc Power Plant”), and the 10 MWh BESS project all located in Masinloc, Zambales, owned by Masinloc Power Partners Co. Ltd. (“MPPCL”), which was wholly acquired by SMC Global Power in March 2018, and (4) the greenfield power plants owned and developed by SMC Global Power, namely the 4 x 150 MW Limay Coal-Fired Circulating Fluidized Bed Power Plant in Limay, Bataan, (the “Limay Greenfield Power Plant”) owned by its subsidiary, SMC Consolidated Power Corporation (“SCPC”) and the 2 x 150 MW Malita Coal-Fired Circulating Fluidized Bed Power Plant in Malita, Davao Occidental, (the “Davao Greenfield Power Plant”) owned by another subsidiary, San Miguel Consolidated Power Corporation (“SMCPC”). Units 1, 2, 3 and 4 of the Limay Greenfield Power Plant commenced commercial operations in May 2017, September 2017, March 2018 and July 2019, respectively. Units 1 and 2 of the Malita Greenfield Power Plant commenced commercial operations in July 2017 and February 2018, respectively.

Based on the total installed generating capacities pursuant to the ERC Resolution on Grid Market Share Limitation, SMC Global Power believes that its combined installed capacity comprises approximately 20% of the National Grid, 26% of the Luzon Grid and 9% of the Mindanao Grid, in each case as of July 2019.

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

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

SMC Global Power also owns (1) 89.54% interest in Mariveles Power Generation Corporation (“MPGC”) which is developing and constructing the 4 x 150 MW circulating fluidized bed coal-fired power plant and associated facilities in Mariveles, Bataan and (2) SMCGP Philippines Energy Co. Ltd. (“SMCGP Philippines Energy”) which is constructing a 20 MWh BESS facility in Kabankalan, Negros Occidental.

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

Infrastructure

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

SLEX / Skyway Stage 1 and 2

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

- 80.0% stake in South Luzon Tollway Corporation (SLTC), through MTD Manila Expressways, Inc. (MTDME), a wholly-owned subsidiary of AAIBV. SLTC holds a 30-year concession rights to the SLEX, which currently spans 36.1 km from Alaban, Muntinlupa to Sto. Tomas, Batangas. SLEX is one of the three (3) major expressways that link Metro Manila to the key southern provinces of the Philippines, including Cavite, Laguna, Batangas, Rizal and Quezon (“CALABARZON”). It also holds the 35-year concession rights to SLEX-TR4 which will extend SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province by 56.862 km; and
- 87.84% beneficial ownership in Citra Metro Manila Tollways Corporation (CMMTC), through Atlantic Aurum Investments Philippines Corporation (AAIPC), a wholly-owned subsidiary of AAIBV. CMMTC holds a 30-year concession rights to construct, operate and maintain the 29.59 km Skyway Stage 1 and 2 Project.

STAR Tollway

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

TPLEX

SMHC, through its subsidiary, SMC TPLEX Holdings Co. Inc. (“STHCI”, formerly Rapid Thoroughfares, Inc.), owns a 70.11% equity interest in Private Infra Dev Corporation (PIDC). PIDC is a company which holds a 35-year BTO concession rights to construct, operate and maintain an 88.85 km toll expressway from La Paz, Tarlac, through Pangasinan, to Rosario, La Union. The stretch from Tarlac to Pozzorubio, Pangasinan has been operational since December 2017. The last phase from Pozzorubio to Rosario, La Union, is currently under construction. A section of this last phase Rosario to Sison, Pangasinan was opened temporarily in December 2019 and closed after the holiday season to complete its construction.

NAIAx

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

Skyway Stage 3

On February 28, 2014, SMHC through AAIBV incorporated Stage 3 Connector Tollways Holdings Corp. (S3HC), which holds an 80% ownership interest in Citra Central Expressway Corp. (CCEC). CCEC holds a 30-year concession to construct, operate, and maintain the Skyway Stage 3, an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

On March 15, 2016, AAIBV sold its 100% ownership interest in S3HC to AAIPC.

Skyway Stage 4

Skyway Stage 4 is a proposed 56.74 km roadway from South Metro Manila Skyway to Batasan Complex, Quezon City. Skyway Stage 4 will serve as another expressway system that aims to further decongest EDSA, C5 and other major arteries of the Metropolis. Further, it aims to provide faster alternate route and accessibility to the motorist when travelling from the provinces of CALABARZON area to Metropolis. The project has a concession period of 30 years (from start of operations).

Boracay Airport

SMC, through the 99.92% interest of SMHC in Trans Aire Development Holdings Corp. (TADHC), is undertaking the expansion of Boracay Airport under a 25-year Contract-Add-Operate-and-Transfer concession granted by the Republic of the Philippines (ROP), through the Department of Transportation and Communications (now the Department of Transportation).

Boracay Airport is the principal gateway to the Boracay Island, a popular resort for passengers traveling from Manila. The airport has seen recent upgrades including a longer runway and accommodation of international flights.

MRT-7

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

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

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

MNHPI

MNHPI is the terminal operator of Manila North Harbor, a 52-hectare port facility situated at Tondo, City of Manila. The port has a total quay length of 5,200 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels. Under the Contract for the Development, Operation and Maintenance of the Manila North Harbor entered with the Philippine Ports Authority on November 19, 2009, the Philippine Ports Authority awarded MNHPI the sole and exclusive right to manage, operate, develop and maintain the Manila North Harbor for 25 years, renewable for another 25 years. MNHPI commenced operations on April 12, 2010. SMC through SMHC owns 43.33% of MNHPI.

Bulacan Bulk Water Supply Project

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

New Manila International Airport

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

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

Banking

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

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

Financial Statements

The Audited Consolidated Financial Statements of the Company as of December 31, 2019, including the Company’s Statement of Management’s Responsibility, and the Notes to the 2019 Audited Consolidated Financial Statements of the Company are attached hereto as **Annex “B”**.

In accordance with the Part III.C (i) of SRC Rule 68,, since the date of the Annual Stockholders’ Meeting is beyond 135 days from the end of its fiscal year which is December 31, 2019, the Company’s SEC Form 17-Q for the first quarter of 2020 (the “First Quarter 17-Q”) is attached hereto as **Annex “B-1”**. The First Quarter 17-Q was due for filing forty-five (45) days after the end of each quarter. However, pursuant to SEC Memorandum Circular No. 5, Series of 2020, the deadline for filing of the First Quarter 17-Q has been extended due to the implementation of the enhanced community quarantine to prevent the spread of COVID019. The First Quarter 17-Q, which was due for filing with the SEC on May 15, 2020 will be approved by the Board during its regular meeting to be held on May 28, 2020.

Management’s Discussion and Analysis or Plan of Operation

The Management's Discussion and Analysis or Plan of Operation of the Company as of December 31, 2019 and as of March 31, 2020 are attached hereto as **Annexes “C” and “C-1”**, respectively.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

Audit and Audit Related Fees

The Parent Company paid the external auditor the amount of P9 million and P32 million, respectively, for its services rendered in 2019 and 2018. Said fees include compensation for audit services and other related services such as audit review and research work. There were no fees paid to the external auditor for tax accounting, compliance, advice, planning, and any other form of tax services. There were no other fees paid to the auditors other than the above-described services.

The stockholders approve the appointment of the Company’s external auditors. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the Board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. Likewise, the Audit and Risk Oversight Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors’ duties as such or threaten its independence.

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

The Company's common shares, Series “1” preferred shares and Series “2” preferred shares are listed and traded in the Philippine Stock Exchange. The percentage of public ownership of the Company as of March 31, 2020 is 16.00%.

The Company’s high and low closing prices for each quarter of the last two (2) fiscal years and for the first quarter of 2020 are as follows:

	2019								2020	
	1st		2nd		3rd		4th		1st	
	High	Low	High	Low	High	Low	High	Low	High	Low
Common	180.00	144.80	195.90	171.90	183.70	170.10	174.00	150.00	165.00	72.50
Preferred – 2B	75.90	74.00	75.95	73.15	77.50	74.50	-	-	-	-
Preferred – 2C	77.40	75.00	78.00	75.20	79.00	76.00	78.95	75.05	78.95	74.80
Preferred – 2D	74.45	71.40	73.85	71.05	76.45	72.50	76.00	74.70	76.05	73.00
Preferred – 2E	75.00	71.30	74.25	71.50	76.50	72.00	77.00	74.00	76.50	73.00
Preferred – 2F	76.80	72.00	75.00	73.00	78.00	73.75	77.75	75.35	78.00	74.00
Preferred – 2G	74.90	71.20	74.50	72.50	77.00	73.25	78.00	75.05	76.40	73.00
Preferred – 2H	74.50	71.00	74.00	70.00	79.95	70.50	76.95	74.00	76.50	74.00
Preferred – 2I	75.00	71.05	74.95	40.80	77.00	72.95	77.00	75.00	77.00	73.50

	2018							
	1st		2nd		3rd		4th	
	High	Low	High	Low	High	Low	High	Low
Common	152.00	111.60	145.40	134.00	180.10	134.00	175.40	139.00
Preferred – 2B	77.50	75.00	78.00	75.20	91.00	75.00	76.45	75.00
Preferred – 2C	81.50	75.00	79.95	77.00	80.90	77.50	78.10	75.75
Preferred – 2D	77.00	74.50	76.90	74.90	76.00	72.00	75.40	70.00
Preferred – 2E	79.00	75.00	76.95	75.05	77.00	73.35	75.45	71.95
Preferred – 2F	81.50	77.30	79.50	76.00	77.50	74.50	75.35	70.05
Preferred – 2G	78.50	75.00	76.80	75.00	76.50	74.60	75.20	70.30
Preferred – 2H	79.60	75.00	78.00	75.00	77.50	72.50	75.00	71.85
Preferred – 2I	79.80	76.80	78.90	75.10	77.00	74.50	75.00	70.05

The closing prices as of the last trading date in April 2020 are as follows:

Stock Symbol	Last Trading Date for the month of April 2020	Latest Closing Price per share
SMC	April 30, 2020	₱ 97.00
SMC2C	April 30, 2020	₱ 77.00
SMC2D	April 30, 2020	₱ 74.90
SMC2E	April 30, 2020	₱ 75.50
SMC2F	April 30, 2020	₱ 75.25
SMC2G	April 30, 2020	₱ 75.15
SMC2H	April 30, 2020	₱ 72.75
SMC2I	April 30, 2020	₱ 75.00

The closing price as of the latest practicable trading date on May 7, 2020 is as follows:

Common – P96.20
Preferred Series 2C – P76.50
Preferred Series 2D – P74.60
Preferred Series 2E – P75.00
Preferred Series 2F – P75.85
Preferred Series 2G – P75.00 (as of last trading date of May 6, 2020)
Preferred Series 2H – P74.80
Preferred Series 2I – P75.00

The approximate number of shareholders as of March 31, 2020 is 35,089.

The top 20 common and preferred stockholders as of March 31, 2020 are as follows:

	STOCKHOLDER NAME	Common	Preferred S1	Preferred S2	Total Shares	% OF O/S
1	Top Frontier Investment Holdings, Inc.	1,573,100,340	0	0	1,573,100,340	41.78%
2	PCD Nominee Corporation (Filipino)	206,389,345	0	986,149,910	1,192,539,255	31.67%
3	Privado Holdings, Corp.	368,140,516	0	0	368,140,516	9.78%
4	Metroplex Holdings Corporation	0	106,174,534	1,578,000	107,752,534	2.86%
5	Lucena Holdings Corporation	0	89,410,133	1,332,000	90,742,133	2.41%
6	Gingog Holdings Corporation	1,830,082	83,822,000	1,590,000	87,242,082	2.31%
7	PCD Nominee Corporation (Non-Filipino)	47,882,865	0	8,140,150	56,023,015	1.49%
8	PCGG In Trust For the Comprehensive Agrarian Reform Program	27,636,339	0	0	27,636,339	0.73%
9	San Miguel Brewery Inc. Retirement Plan	0	0	18,153,700	18,153,700	0.48%
10	G & E Shareholdings Inc.	0	0	15,000,000	15,000,000	0.40%
11	Petron Corporation Employees' Retirement Plan	12,237,100	0	0	12,237,100	0.32%
12	Millennium Energy Inc.	10,807,380	0	0	10,807,380	0.29%
13	San Miguel Corporation Retirement Plan FIP	0	0	9,346,900	9,346,900	0.25%
14	Social Security System	0	0	7,328,500	7,328,500	0.19%
15	Sysmart Corporation	4,614,820	0	0	4,614,820	0.12%
16	Eduardo M. Cojuangco Jr.	3,828,702	0	0	3,828,702	0.10%
17	Pryce Corporation	0	0	3,541,760	3,541,760	0.09%
18	San Miguel Corporation - STP	0	0	3,166,500	3,166,500	0.08%
19	Pryce Gases, Inc.	0	0	2,832,070	3,832,070	0.07%
20	GSIS Provident Fund	0	0	2,666,700	2,666,700	0.07%
	TOTAL	2,256,467,489	279,406,667	1,060,826,190	3,596,700,346	95.52%

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

2019

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 14, 2019	April 5, 2019	May 3, 2019	P0.35
	June 11, 2019	July 5, 2019	July 30, 2019	0.35
	September 12, 2019	October 11, 2019	October 31, 2019	0.35
	December 5, 2019	January 3, 2020	January 24, 2020	0.35
Preferred				
SMCP1	January 24, 2019	March 22, 2019	April 5, 2019	1.0565625
	May 9, 2019	June 21, 2019	July 5, 2019	1.0565625
	August 8, 2019	September 20, 2019	October 4, 2019	1.0565625
	November 7, 2019	December 20, 2019	January 10, 2020	1.0565625
SMC2B	January 24, 2019	March 22, 2019	April 5, 2019	1.4296875
	May 9, 2019	June 21, 2019	July 5, 2019	1.4296875
	August 8, 2019	September 20, 2019	October 4, 2019	1.4296875
SMC2C	January 24, 2019	March 22, 2019	April 5, 2019	1.50
	May 9, 2019	June 21, 2019	July 5, 2019	1.50
	August 8, 2019	September 20, 2019	October 4, 2019	1.50
	November 7, 2019	December 20, 2019	January 10, 2020	1.50

SMC2D	January 24, 2019	March 22, 2019	April 5, 2019	1.11433125
	May 9, 2019	June 21, 2019	July 5, 2019	1.11433125
	August 8, 2019	September 20, 2019	October 4, 2019	1.11433125
	November 7, 2019	December 20, 2019	January 10, 2020	1.11433125
SMC2E	January 24, 2019	March 22, 2019	April 5, 2019	1.18603125
	May 9, 2019	June 21, 2019	July 5, 2019	1.18603125
	August 8, 2019	September 20, 2019	October 4, 2019	1.18603125
	November 7, 2019	December 20, 2019	January 10, 2020	1.18603125
SMC2F	January 24, 2019	March 22, 2019	April 5, 2019	1.27635
	May 9, 2019	June 21, 2019	July 5, 2019	1.27635
	August 8, 2019	September 20, 2019	October 4, 2019	1.27635
	November 7, 2019	December 20, 2019	January 10, 2020	1.27635
SMC2G	January 24, 2019	March 22, 2019	April 5, 2019	1.23361875
	May 9, 2019	June 21, 2019	July 5, 2019	1.23361875
	August 8, 2019	September 20, 2019	October 4, 2019	1.23361875
	November 7, 2019	December 20, 2019	January 10, 2020	1.23361875
SMC2H	January 24, 2019	March 22, 2019	April 5, 2019	1.1854125
	May 9, 2019	June 21, 2019	July 5, 2019	1.1854125
	August 8, 2019	September 20, 2019	October 4, 2019	1.1854125
	November 7, 2019	December 20, 2019	January 10, 2020	1.1854125
SMC2I	January 24, 2019	March 22, 2019	April 5, 2019	1.18790625
	May 9, 2019	June 21, 2019	July 5, 2019	1.18790625
	August 8, 2019	September 20, 2019	October 4, 2019	1.18790625
	November 7, 2019	December 20, 2019	January 10, 2020	1.18790625

2018

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend per Share
Common				
	March 15, 2018	April 6, 2018	May 4, 2018	P0.35
	June 14, 2018	July 2, 2018	July 25, 2018	0.35
	September 13, 2018	October 5, 2018	October 30, 2018	0.35
	December 6, 2018	January 2, 2019	January 24, 2019	0.35
Preferred				
SMCP1	January 25, 2018	March 8, 2018	April 5, 2018	1.0565625
	May 10, 2018	June 21, 2018	July 6, 2018	1.0565625
	August 9, 2018	September 21, 2018	October 5, 2018	1.0565625
	November 13, 2018	December 21, 2018	January 11, 2019	1.0565625
SMC2B	January 25, 2018	March 8, 2018	April 5, 2018	1.4296875
	May 10, 2018	June 21, 2018	July 6, 2018	1.4296875
	August 9, 2018	September 21, 2018	October 5, 2018	1.4296875
	November 13, 2018	December 21, 2018	January 11, 2019	1.4296875
SMC2C	January 25, 2018	March 8, 2018	April 5, 2018	1.50
	May 10, 2018	June 21, 2018	July 6, 2018	1.50
	August 9, 2018	September 21, 2018	October 5, 2018	1.50
	November 13, 2018	December 21, 2018	January 11, 2019	1.50
SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	1.11433125
	May 10, 2018	June 21, 2018	July 6, 2018	1.11433125
	August 9, 2018	September 21, 2018	October 5, 2018	1.11433125
	November 13, 2018	December 21, 2018	January 11, 2019	1.11433125

SMC2E	January 25, 2018	March 8, 2018	April 5, 2018	1.18603125
	May 10, 2018	June 21, 2018	July 6, 2018	1.18603125
	August 9, 2018	September 21, 2018	October 5, 2018	1.18603125
	November 13, 2018	December 21, 2018	January 11, 2019	1.18603125
SMC2F	January 25, 2018	March 8, 2018	April 5, 2018	1.27635
	May 10, 2018	June 21, 2018	July 6, 2018	1.27635
	August 9, 2018	September 21, 2018	October 5, 2018	1.27635
	November 13, 2018	December 21, 2018	January 11, 2019	1.27635
SMC2G	January 25, 2018	March 8, 2018	April 5, 2018	1.23361875
	May 10, 2018	June 21, 2018	July 6, 2018	1.23361875
	August 9, 2018	September 21, 2018	October 5, 2018	1.23361875
	November 13, 2018	December 21, 2018	January 11, 2019	1.23361875
SMC2H	January 25, 2018	March 8, 2018	April 5, 2018	1.1854125
	May 10, 2018	June 21, 2018	July 6, 2018	1.1854125
	August 9, 2018	September 21, 2018	October 5, 2018	1.1854125
	November 13, 2018	December 21, 2018	January 11, 2019	1.1854125
SMC2I	January 25, 2018	March 8, 2018	April 5, 2018	1.18790625
	May 10, 2018	June 21, 2018	July 6, 2018	1.18790625
	August 9, 2018	September 21, 2018	October 5, 2018	1.18790625
	November 13, 2018	December 21, 2018	January 11, 2019	1.18790625

On January 23, 2020, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at March 20, 2020 on the following shares to be paid on April 3, 2020, as follows:

Class of Shares	Dividends Per Share
SMCP1	P1.0565625
SMC2C	1.50
SMC2D	1.11433125
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625

On March 12, 2020, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common stockholders of record as at April 3, 2020 to be paid on April 30, 2020.

Description of the following securities of the Group may be found in the indicated Notes to the 2019 Audited Consolidated Financial Statements, attached herein as **Annex “B”**:

Equity	Note 24
Share-based transactions	Note 39

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

Independent Public Accountants

The accounting firm of R.G. Manabat & Co. served as the Parent Company’s external auditors for the last fourteen (14) fiscal years. The BOD will again nominate R.G. Manabat & Co. as the Parent Company’s external auditors for this fiscal year.

Representatives of R.G. Manabat & Co. are expected to be present at the stockholders’ meeting and will be available to respond to appropriate questions. They will have the opportunity to make a statement if they so desire.

The Parent Company paid the external auditor the amount of P9million and P32 million, respectively, for its services rendered in 2019 and 2018.

The stockholders approve the appointment of the Parent Company's external auditors. The Audit and Risk Oversight Committee reviews the audit scope and coverage, strategy and results for the approval of the board and ensures that audit services rendered shall not impair or derogate the independence of the external auditors or violate SEC regulations. The Parent Company's Audit and Risk Oversight Committee's approval policies and procedures for external audit fees and services are stated in the Parent Company's Manual of Corporate Governance.

Compliance with Leading Practice on Corporate Governance

The evaluation by the Company to measure and determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance ("Manual") is vested by the Board of Directors on the Compliance Officer. The Compliance Officer is mandated to monitor compliance by all concerned with the provisions and requirements of the Manual. The Compliance Officer has certified that the Company has substantially adopted all the provisions of the Manual. Pursuant to its commitment to good governance and business practice, the Company continues to review and strengthen its policies and procedures, giving due consideration to developments in the area of corporate governance which it determines to be in the best interests of the Company and its stockholders. On April 14, 2010, the Board of Directors amended the Manual pursuant to the Revised Code of Corporate Governance issued by the SEC under its Memorandum Circular No. 6, series of 2009. On March 27, 2014, the Board of Directors approved further amendments to the Manual to reflect the requirements of the SEC on the annual training requirement of directors and key officers of the Company, and the requirements on the reporting of compliance with the Manual.

UNDERTAKING

The Company will post and make available for download the full version of this SEC Form 20-IS (Definitive Information Statement), together with all its annexes including the 2019 consolidated audited financial statements of the Company and the First Quarter 17-Q on the company website www.sanmiguel.com.ph upon its approval by the Securities and Exchange Commission.

Upon the written request of a stockholder, the Company undertakes to timely furnish such stockholder with a copy of the full version of this SEC Form 20-IS (Definitive Information Statement), the SEC Form 17-A and the First Quarter 17-Q free of charge. Such written request shall be directed to the Office of the Corporate Secretary, 7/F SMC-HOC Building, No. 40 San Miguel Avenue, Mandaluyong City, Philippines, or sent via email at smc_stsc@smg.sanmiguel.com.ph

SIGNATURE

After reasonable inquiry and to the best of my knowledge and behalf, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Mandaluyong on June 2, 2020.

SAN MIGUEL CORPORATION

By:



Virgilio S. Jacinto
Corporate Secretary

**CERTIFICATION OF INDEPENDENT
DIRECTOR**

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **REYNALDO G. DAVID**, Filipino, of legal age with address at No.35, Narra Street, South Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation (SMC) since June 14, 2016.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Petron Corporation	Independent Director	May 12, 2009 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code, and its Implementing Rules and Regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

Offense Charged/Investigated	Tribunal or Agency Involved	Status
Violation of Section 3(e) of R. A. 3019, as amended	Sandiganbayan Supreme Court	Case before Sandiganbayan dismissed. Appeal pending with the Supreme Court
Petition for the issuance of Freeze Order	Court of Appeals Supreme Court	Petition before Court of Appeals dismissed. Appeal pending with the Supreme Court
Queries regarding Philex Mining Corporation	Securities and Exchange Commission	Comment submitted.

6. I am not in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this 12th day of March 2020 at Mandaluyong City.


REYNALDO G. DAVID
Affiant

SUBSCRIBED AND SWORN to before me this 12th day of March 2020 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. P8615707A issued at DFA Manila on September 5, 2018.

Doc. No.: 512 ;
Page No.: 104 ;
Book No.: III ;
Series of 2020.




PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City

**CERTIFICATION OF INDEPENDENT
DIRECTOR**

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **REYNATO S. PUNO**, Filipino, of legal age with address at No. 13 Julius Street, Don Jose Heights, Commonwealth Avenue, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation (SMC) and have been its independent director since January 20, 2011.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Environmental Heroes Foundation	Chairman	2013-present
World Vision Foundation	Chairman	2012-present
GMA Kapuso Foundation	Vice Chairman	2013-present
Union Bank of the Philippines	Independent Director	2012-present
San Miguel Brewery Hong Kong Ltd.	Independent Director	2012-present
PT Delta Jakarta, Tbk	Independent Commissioner	2013-present
The New Standard newspaper	Member of the Board of Directors	2014-present
Previous Company/Organization	Previous Position/Relationship	Period of Service
Supreme Court of the Philippines	Former Chief Justice of the Supreme Court	December 6, 2006, Retired, May 17, 2010
Presidential Electoral Tribunal	Former Chairman	2007-2010
First, Second and Third Division of the Supreme Court	Former Justice	1993-2007

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

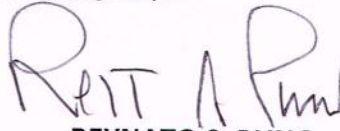
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am neither in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five days from its occurrence.

Done this 12th day of March 2020 at Mandaluyong City.


REYNATO S. PUNO
Affiant

SUBSCRIBED AND SWORN to before me this 12th day of March 2020 at Mandaluyong City, affiant personally appeared before me and exhibited to me his Passport No. P0084717A issued at DFA-NCR-Northeast on August 29, 2016.

Doc. No.: 513;
Page No.: 124;
Book No.: III;
Series of 2020.




PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City

**CERTIFICATION OF INDEPENDENT
DIRECTOR**

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **MARGARITO B. TEVES**, Filipino, of legal age, and a resident of 411 Ambuklao Street, Ayala Alabang Village, Muntinlupa City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of San Miguel Corporation ("SMC") and have been its independent director since June 14, 2012.

2. I am affiliated with the following companies or organizations:

Company	Position/Relationship	Period of Service
P.J. Lhuillier Group of Companies	Member, Strategic Committee	February 2015 to present
Petron	Independent Director	May 20, 2014 to present
Atlantic Aurum Investments Philippines Corporation	Independent Director	July 19, 2013 to present
AB Capital Investment Corp.	Independent Director	June 29, 2012 to present
The Wallace Business Forum	Managing Director	March 1, 2012 to present
Alphaland Balesin Island Club, Inc.	Independent Director	2012 to present
Alphaland Corporation	Independent Director	May 26, 2011 to present
Atok-Big Wedge Co., Inc.	Independent Director	2011 to present
The City Club at Alphaland Makati Place, Inc.	Independent Director	2011 to present
Pampanga Sugar Development Co.	Director	July 2011 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of SMC, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and regulations and other issuances of the Securities and Exchange Commission ("SEC").

4. Other than as disclosed in Item 2 above, I am not in any way related to any director/officer/substantial shareholder of SMC and its subsidiaries and affiliates.

5. I disclose that I am the subject of the following criminal/administrative investigation or proceeding:

Offense Charged/Investigated	Tribunal or Agency Involved	Status
A legal suit between private parties for qualified theft and/or estafa. I was included only because I was the <i>former President of Land Bank</i> .	Office of the City Prosecutor (Manila)	Have not received copy of the actual complaint-affidavit
Republic Act No. 3019. I was included only because I was the former <i>ex officio</i> Chairman of Land Bank (as DOF Secretary)	Sandiganbayan	Pending at the Sandiganbayan; latest court order to date: case suspended pending civil suit of SMC vs. Land Bank

6. I am neither in government service nor affiliated with a government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its implementing rules and regulations, the Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of San Miguel Corporation of any changes in the abovementioned information within five (5) days from its occurrence.

Done this 12th of day of March 2020 at Mandaluyong City.


MARGARITO B. TEVES
Independent Director

SUBSCRIBED AND SWORN to before me this 12th of day of March 2020 at Mandaluyong City, affiant exhibiting to me his Passport Number P4425969B issued on January 16, 2020 at DFA-NCR South.

Doc. No.: 511
Page No.: 104
Book No.: III
Series of 2020.




PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City

ANNEX “B”

**SAN MIGUEL CORPORATION AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017**

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017**

With Independent Auditor's Report



SAN MIGUEL CORPORATION

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

The management of San Miguel Corporation (the "Company"), is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

EDUARDO M. COJUANGCO, JR.

Chairman and Chief Executive Officer

RAMON S. ANG

President and Chief Operating Officer

FERDINAND K. CONSTANTINO

Senior Vice President and
Chief Finance Officer/Treasurer

Signed this 12th day of March 2020

ACKNOWLEDGEMENT

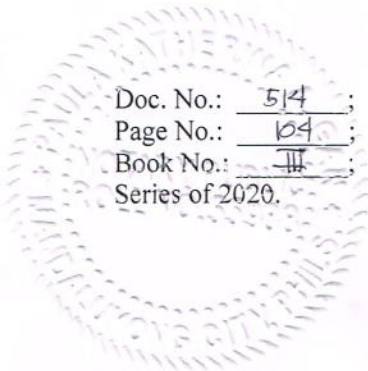
REPUBLIC OF THE PHILIPPINES)
Mandaluyong City) S.S.

Before me, a Notary Public for and in Mandaluyong City, this 12th day of March 2020,
personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date / Place of Issue</u>
Eduardo M. Cojuangco Jr.	P6769283A	04/13/18/DFA-Manila
Ramon S. Ang	P2247867B	05/22/2019/DFA-Manila
Ferdinand K. Constantino	P0341304A	09/22/16/DFA-NCR East

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

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




PAULA KATHERINA A. GAN
Commission No. 0308-19
Notary Public for Mandaluyong City
Until December 31, 2020
SMC, 40 San Miguel Ave., Mandaluyong City
Roll No. 55988
PTR No. 4324707; 01/07/20; Mandaluyong City
IBP Lifetime Member No. 013353; 02/05/15, QC
MCLE Compliance No. VI-0019930; 03/20/19; Pasig City



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

REPORT OF INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of San Miguel Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition (P1,020,502 million).

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

The risk

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

Our response

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

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

Valuation of Goodwill (P130,073 million).

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

The risk

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

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

Our response

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

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



Valuation of Other Intangible Assets (P149,014 million).

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

The risk

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

Our response

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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



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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Wilfredo Z. Palad.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020

Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018
(In Millions)

	<i>Note</i>	2019	2018
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5, 7, 40, 41	P286,457	P243,150
Trade and other receivables - net	4, 5, 8, 33, 35, 40, 41	136,488	129,893
Inventories	4, 5, 9	127,463	118,946
Current portion of biological assets - net	4, 16	4,151	4,245
Prepaid expenses and other current assets	4, 5, 10, 12, 33, 34, 40, 41	86,585	92,043
Total Current Assets		641,144	588,277
Noncurrent Assets			
Investments and advances - net	4, 5, 11	52,861	50,519
Investments in equity and debt instruments	4, 12, 40, 41	42,055	42,126
Property, plant and equipment - net	4, 5, 13, 34	463,614	594,372
Right-of-use assets - net	4, 14	173,604	-
Investment property - net	4, 15	51,779	31,829
Biological assets - net of current portion	4, 16	2,808	2,844
Goodwill - net	4, 5, 17, 38	130,073	130,852
Other intangible assets - net	4, 5, 17	149,014	146,608
Deferred tax assets	4, 5, 23	18,052	19,249
Other noncurrent assets - net	4, 5, 18, 33, 34, 35, 40, 41	92,730	69,966
Total Noncurrent Assets		1,176,590	1,088,365
		P1,817,734	P1,676,642
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable	5, 19, 30, 33, 38, 40, 41	P169,492	P184,024
Accounts payable and accrued expenses	4, 5, 20, 33, 34, 35, 40, 41	176,037	149,764
Lease liabilities - current portion	4, 5, 30, 34, 38, 40, 41	24,979	19,699
Income and other taxes payable	5	21,185	19,901
Dividends payable	33, 36, 38	4,116	4,042
Current maturities of long-term debt - net of debt issue costs	5, 21, 30, 33, 38, 40, 41	43,808	55,697
Total Current Liabilities		439,617	433,127
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	5, 21, 30, 33, 38, 40, 41	638,996	561,918
Deferred tax liabilities	5, 23	25,265	22,899
Lease liabilities - net of current portion	4, 5, 30, 34, 38, 40, 41	117,269	122,367
Other noncurrent liabilities	4, 5, 22, 33, 34, 35, 40, 41	22,192	24,384
Total Noncurrent Liabilities		803,722	731,568

Forward

	Note	2019	2018
Equity	24, 36, 37, 39		
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - common		P16,443	P16,443
Capital stock - preferred		10,187	10,187
Additional paid-in capital		177,938	177,938
Equity reserves	5	14,390	21,513
Retained earnings:			
Appropriated		56,689	72,820
Unappropriated		173,092	148,345
Treasury stock		(116,283)	(109,501)
		332,456	337,745
Non-controlling Interests	2, 5	241,939	174,202
Total Equity		574,395	511,947
		P1,817,734	P1,676,642

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions, Except Per Share Data)

	<i>Note</i>	2019	2018	2017
SALES	6, 25, 33	P1,020,502	P1,024,943	P826,086
COST OF SALES	26, 34	818,815	825,748	644,221
GROSS PROFIT		201,687	199,195	181,865
SELLING AND ADMINISTRATIVE EXPENSES	27, 34	(85,972)	(82,110)	(70,823)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	19, 21, 30, 33, 34	(56,019)	(45,496)	(35,714)
INTEREST INCOME	31, 33, 35	10,675	7,192	4,525
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	11	105	(289)	297
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	5, 11, 12, 13, 15, 18	(237)	252	879
OTHER INCOME (CHARGES) - Net	5, 32, 40, 41	6,848	(5,628)	154
INCOME BEFORE INCOME TAX		77,087	73,116	81,183
INCOME TAX EXPENSE	23, 43	28,513	24,468	26,369
NET INCOME		P48,574	P48,648	P54,814
Attributable to:				
Equity holders of the Parent Company		P21,329	P23,077	P28,225
Non-controlling interests	5	27,245	25,571	26,589
		P48,574	P48,648	P54,814
Earnings Per Common Share				
Attributable to Equity Holders of the Parent Company	37			
Basic		P5.93	P6.61	P8.78
Diluted		5.93	6.61	8.77

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	<i>Note</i>	2019	2018	2017
NET INCOME		P48,574	P48,648	P54,814
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss				
Equity reserve for retirement plan	35	(3,382)	(540)	(1,720)
Income tax benefit		971	170	510
Net gain (loss) on financial assets at fair value through other comprehensive income	12	(44)	46	-
Income tax expense		(6)	(6)	-
Share in other comprehensive income (loss) of associates and joint ventures - net	11	(25)	2	44
		(2,486)	(328)	(1,166)
Items that may be reclassified to profit or loss				
Gain (loss) on exchange differences on translation of foreign operations		(3,128)	1,459	4,518
Net gain (loss) on financial assets at fair value through other comprehensive income	12	11	(9)	-
Income tax expense		(1)	-	-
Net gain on available-for-sale financial assets	12	-	-	91
Income tax expense		-	-	(3)
Net loss on cash flow hedges	41	(679)	(280)	-
Income tax benefit		192	84	-
		(3,605)	1,254	4,606
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax		(6,091)	926	3,440
TOTAL COMPREHENSIVE INCOME - Net of tax		P42,483	P49,574	P58,254
Attributable to:				
Equity holders of the Parent Company		P16,839	P22,948	P30,308
Non-controlling interests	5	25,644	26,626	27,946
		P42,483	P49,574	P58,254

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	Note	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
		Equity Reserves									Treasury Stock					
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings						
		Common	Preferred							Appropriated	Unappropriated	Common	Preferred	Total		
As at January 1, 2019, As previously reported (Audited)		P16,443	P10,187	P177,938	(P2,990)	(P173)	P514	P3,239	P20,923	P72,820	P148,345	(P67,093)	(P42,408)	P337,745	P174,202	P511,947
Adjustments due to Philippine Financial Reporting Standards (PFRS) 16 and others	3	-	-	-	-	-	-	-	-	-	(1,588)	-	-	(1,588)	(834)	(2,422)
As at January 1, 2019, As adjusted		16,443	10,187	177,938	(2,990)	(173)	514	3,239	20,923	72,820	146,757	(67,093)	(42,408)	336,157	173,368	509,525
Loss on exchange differences on translation of foreign operations		-	-	-	-	-	-	(2,261)	-	-	-	-	-	(2,261)	(867)	(3,128)
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	(113)	-	77	4	-	-	-	-	-	(32)	7	(25)
Net loss on cash flow hedges	41	-	-	-	-	(441)	-	-	-	-	-	-	-	(441)	(46)	(487)
Net gain (loss) on financial assets at fair value through other comprehensive income	12	-	-	-	-	-	(43)	-	-	-	-	-	-	(43)	3	(40)
Equity reserve for retirement plan	35	-	-	-	(1,713)	-	-	-	-	-	-	-	-	(1,713)	(698)	(2,411)
Other comprehensive income (loss)		-	-	-	(1,826)	(441)	34	(2,257)	-	-	-	-	-	(4,490)	(1,601)	(6,091)
Net income		-	-	-	-	-	-	-	-	-	21,329	-	-	21,329	27,245	48,574
Total comprehensive income (loss)		-	-	-	(1,826)	(441)	34	(2,257)	-	-	21,329	-	-	16,839	25,644	42,483
Redemption of series "2-B" preferred shares	24	-	-	-	-	-	-	-	-	-	-	-	(6,782)	(6,782)	-	(6,782)
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	(34)	-	-	-	(2,599)	196	(797)	-	-	(3,234)	63,127	59,893
Reversal of appropriations - net	24	-	-	-	-	-	-	-	-	(16,327)	16,327	-	-	-	-	-
Cash dividends and distributions:	36															
Common		-	-	-	-	-	-	-	-	-	(3,337)	-	-	(3,337)	(11,161)	(14,498)
Preferred		-	-	-	-	-	-	-	-	-	(7,187)	-	-	(7,187)	(2,426)	(9,613)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(3,183)	(3,183)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(3,430)	(3,430)
As at December 31, 2019	24	P16,443	P10,187	P177,938	(P4,850)	(P614)	P548	P982	P18,324	P56,689	P173,092	(P67,093)	(P49,190)	P332,456	P241,939	P574,395

Forward

	Note	Equity Attributable to Equity Holders of the Parent Company													Non-controlling Interests	Total Equity
		Equity Reserves											Total			
		Capital Stock		Additional Paid-in Capital	Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Retained Earnings		Treasury Stock				
		Common	Preferred							Appropriated	Unappropriated	Common		Preferred		
As at January 1, 2018, As adjusted		P16,435	P10,187	P177,750	(P2,664)	P -	P533	P2,748	(P5,160)	P66,890	P143,014	(P67,093)	(P42,408)	P300,232	P170,836	P471,068
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	-	501	-	-	-	-	-	501	958	1,459
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	9	-	(53)	22	-	-	-	-	-	(22)	24	2
Net loss on cash flow hedges	41	-	-	-	-	(173)	-	-	-	-	-	-	-	(173)	(23)	(196)
Net gain (loss) on financial assets at fair value through other comprehensive income	12	-	-	-	-	-	34	-	-	-	-	-	-	34	(3)	31
Equity reserve for retirement plan	35	-	-	-	(469)	-	-	-	-	-	-	-	-	(469)	99	(370)
Other comprehensive income (loss)		-	-	-	(460)	(173)	(19)	523	-	-	-	-	-	(129)	1,055	926
Net income		-	-	-	-	-	-	-	-	-	23,077	-	-	23,077	25,571	48,648
Total comprehensive income (loss)		-	-	-	(460)	(173)	(19)	523	-	-	23,077	-	-	22,948	26,626	49,574
Issuance of common shares	24	8	-	188	-	-	-	-	-	-	-	-	-	196	-	196
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	134	-	-	(32)	26,083	(1,308)	145	-	-	25,022	(4,592)	20,430
Appropriations - net	24	-	-	-	-	-	-	-	-	7,238	(7,238)	-	-	-	-	-
Cash dividends and distributions:	36															
Common		-	-	-	-	-	-	-	-	-	(3,336)	-	-	(3,336)	(10,118)	(13,454)
Preferred		-	-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(6,177)	(6,177)
Senior perpetual capital securities		-	-	-	-	-	-	-	-	-	-	-	-	-	(878)	(878)
As at December 31, 2018	24	P16,443	P10,187	P177,938	(P2,990)	(P173)	P514	P3,239	P20,923	P72,820	P148,345	(P67,093)	(P42,408)	P337,745	P174,202	P511,947

Forward

		Equity Attributable to Equity Holders of the Parent Company													
					Equity Reserves				Retained Earnings		Treasury Stock				
	Note	Capital Stock		Additional	Reserve for	Fair Value	Translation	Other					Total	Non-	Total
		Common	Preferred	Paid-in	Retirement	Reserve	Reserve	Equity	Appro-	Unappro-	Common	Preferred		controlling	Equity
				Capital	Plan			Reserve	riated	riated				Interests	
As at January 1, 2017		P16,425	P10,187	P177,641	(P1,756)	P214	(P180)	(P5,978)	P56,906	P135,984	(P67,093)	(P42,408)	P279,942	P156,839	P436,781
Gain on exchange differences on translation of foreign operations		-	-	-	-	-	2,872	-	-	-	-	-	2,872	1,646	4,518
Share in other comprehensive income (loss) of associates and joint ventures - net	11	-	-	-	(3)	(25)	56	-	-	-	-	-	28	16	44
Net gain on available-for-sale financial assets	12	-	-	-	-	88	-	-	-	-	-	-	88	-	88
Equity reserve for retirement plan	35	-	-	-	(905)	-	-	-	-	-	-	-	(905)	(305)	(1,210)
Other comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	-	-	-	2,083	1,357	3,440
Net income		-	-	-	-	-	-	-	-	28,225	-	-	28,225	26,589	54,814
Total comprehensive income (loss)		-	-	-	(908)	63	2,928	-	-	28,225	-	-	30,308	27,946	58,254
Issuance of common shares	24	10	-	109	-	-	-	-	-	-	-	-	119	-	119
Net addition (reduction) to non-controlling interests and others	5, 11	-	-	-	-	-	-	818	-	(239)	-	-	579	2,789	3,368
Appropriations - net	24	-	-	-	-	-	-	-	9,984	(9,984)	-	-	-	-	-
Cash dividends and distributions:	36														
Common		-	-	-	-	-	-	-	-	(3,334)	-	-	(3,334)	(8,216)	(11,550)
Preferred		-	-	-	-	-	-	-	-	(7,317)	-	-	(7,317)	(1,495)	(8,812)
Undated subordinated capital securities		-	-	-	-	-	-	-	-	-	-	-	-	(7,098)	(7,098)
As at December 31, 2017	24	P16,435	P10,187	P177,750	(P2,664)	P277	P2,748	(P5,160)	P66,890	P143,335	(P67,093)	(P42,408)	P300,297	P170,765	P471,062

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(In Millions)

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P77,087	P73,116	P81,183
Adjustments for:				
Interest expense and other financing charges	30	56,019	45,496	35,714
Depreciation, amortization and others - net	28	35,235	50,670	33,991
Loss (gain) on sale of investments and property and equipment	5, 11, 12, 13, 15, 18	237	(252)	(879)
Interest income	31	(10,675)	(7,192)	(4,525)
Equity in net losses (earnings) of associates and joint ventures	11	(105)	289	(297)
Operating income before working capital changes		157,798	162,127	145,187
Changes in noncash current assets, certain current liabilities and others	38	15,098	(41,077)	(19,033)
Cash generated from operations		172,896	121,050	126,154
Interest and other financing charges paid		(58,833)	(38,299)	(26,319)
Income taxes paid		(21,868)	(22,979)	(20,099)
Net cash flows provided by operating activities		92,195	59,772	79,736
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	13	(66,805)	(47,323)	(38,693)
Increase in other noncurrent assets and others		(54,338)	(40,494)	(30,531)
Additions to investments and advances and investment in debt instruments	11, 12	(2,169)	(20,021)	(2,908)
Acquisitions of subsidiaries, net of cash and cash equivalents acquired	38	(1,408)	(98,057)	(2,568)
Cash and cash equivalents of a deconsolidated subsidiary	5	(626)	-	-
Interest received		10,549	6,537	4,263
Dividends received	11, 12	1,886	1,906	1,355
Proceeds from sale of investments and property and equipment	5, 11, 12, 13, 15, 18	871	1,139	1,930
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of		-	-	13,020
Net cash flows used in investing activities		(112,040)	(196,313)	(54,132)

Forward

	<i>Note</i>	2019	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Short-term borrowings		P1,405,972	P996,769	P848,320
Long-term borrowings		158,746	242,405	203,715
Payments of:				
Short-term borrowings		(1,416,504)	(964,464)	(888,378)
Long-term borrowings		(85,968)	(65,591)	(135,975)
Net proceeds from issuance of senior perpetual capital securities and preferred shares of subsidiaries	5	85,733	24,881	-
Redemption of undated subordinated capital securities and preferred shares of subsidiaries	5	(22,305)	(39,769)	-
Payments of lease liabilities		(20,673)	(25,698)	(24,924)
Cash dividends and distributions paid to non-controlling shareholders		(20,065)	(19,104)	(16,728)
Cash dividends paid	36	(10,587)	(10,602)	(10,295)
Redemption of series "2-B" preferred shares	24	(6,782)	-	-
Increase (decrease) in non-controlling interests and others		(811)	(91)	1,760
Proceeds from follow-on offering of common shares of a subsidiary	5	-	35,083	-
Proceeds from issuance of capital stock	24	-	196	119
Net cash flows provided by (used in) financing activities		66,756	174,015	(22,386)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS				
		(3,604)	(397)	(298)
NET INCREASE IN CASH AND CASH EQUIVALENTS		43,307	37,077	2,920
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7	243,150	206,073	203,153
CASH AND CASH EQUIVALENTS AT END OF YEAR	7	P286,457	P243,150	P206,073

See Notes to the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Millions, Except Per Share Data and Number of Shares)

1. Reporting Entity

San Miguel Corporation (SMC or the Parent Company), a subsidiary of Top Frontier Investment Holdings, Inc. (Top Frontier or the Ultimate Parent Company), was incorporated on August 21, 1913. On March 16, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation and By-Laws of the Parent Company to extend the corporate term for another fifty (50) years from August 21, 2013, as approved on the March 14, 2011 and June 7, 2011 meetings of the Parent Company's Board of Directors (BOD) and stockholders, respectively.

On February 20, 2019, the President of the Philippines signed into law the Republic Act No. 11232 or the Revised Corporation Code of the Philippines (Revised Code). The Revised Code expressly repeals Batas Pambansa Blg. 68 or the Corporation Code of the Philippines. Section 11 of the Revised Code states that a corporation shall have perpetual existence unless the articles of incorporation provides otherwise. Corporations with certificates of incorporation issued prior to the effectivity of this Revised Code, and which continue to exist, shall have perpetual existence, unless the corporation, upon a vote of its stockholders representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation: Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this Revised Code. The Revised Code took effect on February 23, 2019.

The Parent Company is a public company under Section 17.2 of the Securities Regulation Code. Its common and preferred shares are listed on The Philippine Stock Exchange, Inc. (PSE).

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

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

The registered office address of the Parent Company is No. 40 San Miguel Avenue, Mandaluyong City, Philippines.

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 12, 2020.

Basis of Measurement

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

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

Functional and Presentation Currency

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

Basis of Consolidation

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

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Food and Beverage Business			
San Miguel Food and Beverage, Inc. (SMFB) ^(b) (formerly San Miguel Pure Foods Company Inc. (SMPFC)) and subsidiaries [including San Miguel Mills, Inc. (SMMI) and subsidiaries, Magnolia Inc. and subsidiary, San Miguel Foods, Inc. (SMFI) and subsidiary, PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia), San Miguel Super Coffeemix Co., Inc., The Purefoods-Hormel Company, Inc. (PF-Hormel), and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investment (BVI) Limited) and subsidiary and San Miguel Pure Foods (VN) Co., Ltd.]	88.76	88.76	Philippines
San Miguel Brewery Inc. (SMB) and subsidiaries [including Iconic Beverages, Inc. (IBI), Brewery Properties Inc. (BPI) and subsidiary, and San Miguel Brewing International Limited (SMBIL) and subsidiaries, San Miguel Brewery Hong Kong Limited (SMBHK) and subsidiaries, San Miguel (Baoding) Brewery Co., Ltd. (SMBB), San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited and subsidiaries {including San Miguel Brewery Vietnam Company Limited ^(a) and PT. Delta Jakarta Tbk and subsidiary ^{(a)}} }]			
Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited and Global Beverages Holdings Limited]			

Forward

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Packaging Business			
San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries [including SMC Yamamura Fuso Molds Corporation and Can Asia, Inc. (CAI) ^(c)]	65.00	65.00	Philippines
San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited ^(a) , San Miguel Yamamura Glass (Vietnam) Limited and San Miguel Yamamura Haiphong Glass Company Limited., Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd. and subsidiary, San Miguel Yamamura Plastic Films Sdn. Bhd. and San Miguel Yamamura Australasia Pty Ltd (SMYA) and subsidiaries {including SMYC Pty Ltd formerly Cospak Pty Limited and subsidiary, Foshan Cospak Packaging Co Ltd., SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Ltd (New Zealand), SMYBB Pty Ltd, SMYJ Pty Ltd (SMYJ) ^(d) and Wine Brothers Australian Pty Ltd}]	65.00	65.00	British Virgin Islands (BVI)
Mindanao Corrugated Fibreboard, Inc.	100.00	100.00	Philippines
San Miguel Yamamura Asia Corporation (SMYAC) ^(e)	65.00	60.00	Philippines
Energy Business			
SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc. (SPI), Universal Power Solutions, Inc. (UPSI, formerly Limay Power Generation Corporation), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), Central Luzon Premiere Power Corp., Lumiere Energy Technologies, Inc. (LETI, formerly Limay Premiere Power Corp. {LPPC}), PowerOne Ventures Energy Inc. (PVEI), SMCGP Masin Pte. Ltd. (formerly Masin-AES Pte. Ltd. {MAPL}) and subsidiaries ^(f) , Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Albay Power and Energy Corp. (APEC) and Mariveles Power Generation Corporation (MPGC) ^(g)]	100.00	100.00	Philippines
Fuel and Oil Business			
SEA Refinery Corporation (SRC) and subsidiary: Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation (Petrogen), Overseas Ventures Insurance Corporation Ltd. (Ovincor) ^(a) , Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), New Ventures Realty Corporation (NVRC) and subsidiaries, Petron Singapore Trading Pte., Ltd. (PSTPL), Petron Global Limited, Petron Oil & Gas Mauritius Ltd. and subsidiary, Petron Oil & Gas International Sdn. Bhd. and subsidiaries, Petron Malaysia Refining & Marketing Bhd. (PMRMB), Petron Fuel International Sdn. Bhd. and Petron Oil (M) Sdn. Bhd. (POMSB) (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited ^(a) and subsidiaries]	100.00	100.00	Philippines

Forward

	Percentage of Ownership		Country of Incorporation
	2019	2018	
Infrastructure Business			
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC) and subsidiaries ^(a) [including SMC TPLEX Holdings Company Inc. (formerly Rapid Thoroughfares Inc.) and subsidiary, Private Infra Dev Corporation (PIDC), TPLEX Operations & Maintenance Corp., Trans Aire Development Holdings Corp. (TADHC), Vertex Tollways Devt. Inc. (Vertex), Universal LRT Corporation (BVI) Limited (ULC BVI), SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc., SMC Infraventures Inc. and subsidiary, Citra Intercity Tollways, Inc., Luzon Clean Water Development Corporation (LCWDC), Sleep International (Netherlands) Cooperatief U.A. and Wiselink Investment Holdings, Inc. {collectively own Cypress Tree Capital Investments, Inc. and subsidiaries including Star Infrastructure Development Corporation (SIDC) and Star Tollway Corporation (collectively the Cypress Group)}, Atlantic Aurum Investments B.V. (AAIBV) and subsidiaries {including Atlantic Aurum Investments Philippines Corporation (AAIPC) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, Citra Central Expressway Corp. (CCEC) and Citra Metro Manila Tollways Corporation (CMMTC) and subsidiary, Skyway O&M Corporation (SOMCO), MTD Manila Expressways Inc. (MTDME) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and South Luzon Tollway Corporation (SLTC)} and San Miguel Aerocity Inc. doing business under the name and style of “Manila international Airport” (SMAI)]	100.00	100.00	Philippines
Real Estate Business			
San Miguel Properties, Inc. (SMPI) and subsidiaries ^(a) [including SMPI Makati Flagship Realty Corp. and Bright Ventures Realty, Inc.]	99.95	99.94	Philippines
Davana Heights Development Corporation (DHDC) and subsidiaries	100.00	100.00	Philippines
Others			
San Miguel International Limited and subsidiaries [including San Miguel Holdings Limited (SMHL) and subsidiaries {including SMYPIL}]	100.00	100.00	Bermuda
SMC Shipping and Lighterage Corporation (SMCSLC) and subsidiaries ^(a) , including SL Harbor Bulk Terminal Corporation (SLHBTC)	70.00	70.00	Philippines
San Miguel Equity Investments Inc. (SMEII) and subsidiaries ^(a) , San Miguel Northern Cement, Inc. (SMNCI) and First Stronghold Cement Industries Inc. (FSCII)]	100.00	100.00	Philippines
SMC Stock Transfer Service Corporation ^(a)	100.00	100.00	Philippines
ArchEn Technologies Inc. ^(a)	100.00	100.00	Philippines
SMITS, Inc. and subsidiaries ^(a)	100.00	100.00	Philippines
San Miguel Integrated Logistics Services, Inc. (SMILSI)	100.00	100.00	Philippines
Anchor Insurance Brokerage Corporation (AIBC) ^(a)	58.33	58.33	Philippines
SMC Asia Car Distributors Corp. (SMCACDC) and subsidiary ^(a)	65.00	65.00	Philippines

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

(b) SMB and GSMI were consolidated to SMFB effective June 29, 2018 (Note 5).

(c) Incorporated on July 12, 2018 (Note 5).

(d) Consolidated to SMYPIL effective June 1, 2018 (Note 5).

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

(f) Consolidated to SMC Global effective March 20, 2018 (Note 5).

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

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

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

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: SMFB, SMYPC, SMYPIL, SMYAC, Petron, PIDC, TADHC, AMTEX, AAIBV, SMPI, SMCSLC, AIBC, SMNCI and SMCACDC in 2019 and 2018 and Manila North Harbour Port, Inc. (MNHPI) in 2018 (Note 5).

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

3. Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

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

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

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

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

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

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

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

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

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

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

The impact of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	<i>Note</i>	
ASSETS		
Trade and other receivables - net		P85
Prepaid expenses and other current assets		(974)
Property, plant and equipment - net	13	(170,005)
Right-of-use assets - net	14	180,977
Investment property - net	15	11,168
Other intangible assets - net	17	(1,114)
Deferred tax assets		1,158
Other noncurrent assets - net		(2,553)
		P18,742
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses		(P858)
Lease liabilities - current portion		1,784
Lease liabilities - net of current portion		20,362
Deferred tax liabilities		(36)
Other noncurrent liabilities		(126)
Total Liabilities		21,126
Retained Earnings		(1,550)
Non-controlling Interests		(834)
Total Equity		(2,384)
		P18,742

The reconciliation of operating lease commitments as at December 31, 2018 to the recognized lease liabilities as at January 1, 2019 are as follows:

Operating lease commitments as at December 31, 2018	P34,166
Recognition exemption for short-term leases	(270)
Extension and termination options reasonably certain to be exercised	2,677
Effect of discounting at the incremental borrowing rate as at January 1, 2019	(14,427)
Lease liabilities recognized based on the initial application of PFRS 16 as at January 1, 2019	22,146
Finance lease liabilities recognized as at December 31, 2018	142,066
Lease liabilities recognized as at January 1, 2019	P164,212

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*. The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

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

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

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

- Prepayment Features with Negative Compensation (Amendment to PFRS 9). The amendment covers the following areas:
 - *Prepayment Features with Negative Compensation*. The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.
 - *Modification of Financial Liabilities*. The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.
- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.
- IFRIC Agenda Decision on Over Time Transfer for Constructed Goods (PAS 23) for the Real Estate Industry. In 2019, the IFRIC published an agenda decision on the eligibility of capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development for entities which recognize revenue over time. The IFRIC concluded that inventory for unsold units under construction, which is ready for its intended sale in its current condition, is not a qualifying asset based on the definition provided by PAS 23. Accordingly, any incurred borrowing costs related to the construction of real estate inventories are not capitalized as part of real estate inventories and are to be recognized directly as expense in the consolidated statements of income.

Prior to 2019, the Group capitalized borrowing costs from interest-bearing loans and borrowings specifically obtained for the construction of its real estate projects. The Group made adjustment on its retained earnings by P38 as at January 1, 2019.

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

New and Amended Standards and Framework Not Yet Adopted

A number of new and amended standards and framework are effective for annual periods beginning after January 1, 2019 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

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

The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

- Interest Rate Benchmark Reform (Amendments to PFRS 9, PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures*). The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'. The exceptions relate to the following requirements:
 - *The Highly Probable Requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.
 - *Prospective Assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.
 - *PAS 39 Retrospective Assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.
 - *Separately Identifiable Risk Components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

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

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

The amendments apply for annual reporting periods beginning on or after January 1, 2020, with early application permitted.

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

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

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

Deferral of the Local Implementation of Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

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

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

Current versus Noncurrent Classification

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

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

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

Financial Instruments

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category (Notes 7, 8, 10, 12, 18, 40 and 41).

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

The Group's investments in equity and debt instruments at FVOCI are classified under this category (Notes 10, 12, 40 and 41).

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

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

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

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category (Notes 10, 18, 40 and 41).

Financial Liabilities

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

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

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

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category (Notes 20, 22, 40 and 41).

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

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

The Group’s liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category (Notes 19, 20, 21, 22, 34, 40 and 41).

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

Offsetting Financial Instruments

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

Derivative Financial Instruments and Hedge Accounting

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

Freestanding Derivatives

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

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

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

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

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

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

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2019 and 2018 (Note 41).

Embedded Derivatives

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

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

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

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

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

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

The Group has embedded derivatives as at December 31, 2019 and 2018 (Note 41).

Inventories

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

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

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

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

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

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

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

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

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

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

Prepaid Expenses and Other Current Assets

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

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

Biological Assets and Agricultural Produce

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

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

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

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

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

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

Contract Assets

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

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

Business Combination

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included as part of "Selling and administrative expenses" account in the consolidated statements of income.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

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

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

- *Goodwill in a Business Combination*

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

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

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

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

- *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and impairment losses, if any. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

Business Combinations under Common Control

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

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

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

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

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

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of Associates and Joint Ventures

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Power plants	10 - 43
Refinery and plant equipment	4 - 33
Service stations and other equipment	2 - 33
Equipment, furniture and fixtures	2 - 50
Leasehold improvements	2 - 50
	or term of the lease, whichever is shorter

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

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

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

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

Leases

Policy Applicable from January 1, 2019

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

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

Group as Lessee

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

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

	Number of Years
Land	2 - 999
Buildings and improvements	2 - 10
Power plants	28 - 43
Service stations and other equipment	10 - 12
Machinery and equipment	2 - 7

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

Group as Lessor

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

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

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

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

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

Policy Applicable before January 1, 2019

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

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

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

Finance Lease

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

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

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

Operating Lease

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

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

Investment Property

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

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

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

The useful lives, residual values and depreciation and amortization method are reviewed and adjusted, if appropriate, at each reporting date.

Investment property is derecognized either when it has been disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains and losses on the retirement and disposal of investment property are recognized in the consolidated statements of income in the period of retirement and disposal.

Transfers are made to investment property when, and only when, there is an actual change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is an actual change in use, evidenced by commencement of the owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred.

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

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

Amortization is computed using the straight-line method over the following estimated useful lives of other intangible assets with finite lives:

	Number of Years
Toll road concession rights	26 - 36 or unit of usage
Airport concession rights	25 - 50
Power concession right	25
Water concession right	30
Leasehold and land use rights	20 - 50 or term of the lease, whichever is shorter
Computer software and licenses	2 - 10

The Group assessed the useful lives of licenses and trademarks and brand names to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the assets are expected to generate cash inflows for the Group.

Licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statements of income when the asset is derecognized.

Service Concession Arrangements

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

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

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

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

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

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

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

- *Airport Concession Rights.* The Group's airport concession rights pertain to the rights granted by the Republic of the Philippines (ROP) to TADHC and SMAI: (i) to operate the Caticlan Airport (the Airport Project or the Boracay Airport) and the New Manila International Airport, respectively; (ii) to design and finance the Airport Projects; and (iii) to operate and maintain the Airport Projects during the concession period. This also includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the ROP over the concession period of 25 - 50 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by the Group as the project progresses (Note 4).

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

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

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

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

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

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

- *Port Concession Right.* The Group's port concession right pertains to the right granted by the Philippine Ports Authority (PPA) to MNHPI to manage, operate, develop and maintain the Manila North Harbor for 25 years reckoning on the first day of the commencement of operations renewable for another 25 years under such terms and conditions as the parties may agree. This includes the present value of the annual franchise fee, as defined in the Concession Agreement, payable to the PPA over 25 years. Except for the portion that relates to the annual franchise fee, which is recognized immediately as intangible asset, the right is earned and recognized by MNHPI as the project progresses. Port concession right is recognized initially at cost. Following initial recognition, the port concession right is carried at cost less accumulated amortization and any impairment losses. Subsequent expenditures related to port facility arising from the concession contracts or that increase future revenues are recognized as additions to the intangible asset and are stated at cost.

The port concession right is amortized using the capacity-based amortization over the concession period and assessed for impairment whenever there is an indication that the asset may be impaired.

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

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

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

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

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

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

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

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

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

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

The amortization period and method are reviewed at least at each reporting date. Changes in the terms of the Concession Agreement or the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the intangible asset.

Mineral Rights and Evaluation Assets

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

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

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

The amortization of mining rights will commence upon commercial operations.

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

Deferred Exploration and Development Costs

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

Deferred Containers

Returnable bottles, shells and pallets are measured at cost less accumulated amortization and impairment, if any. These are presented as "Deferred containers - net" under "Other noncurrent assets - net" account in the consolidated statements of financial position and are amortized over the estimated useful lives of two to ten years. Depreciable amount is equal to cost less estimated residual value, equivalent to the deposit value. Amortization of deferred containers is included under "Selling and administrative expenses" account in the consolidated statements of income.

The remaining useful lives, residual values, and amortization method are reviewed and adjusted periodically, if appropriate, to ensure that such periods and method of amortization are consistent with the expected pattern of economic benefits from deferred containers.

The carrying amount of deferred containers is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Refundable containers deposits are collected from customers based on deposit value and refunded when the containers are returned to the Group in good condition. These deposits are presented as "Customers' deposit" under "Accounts payable and accrued expenses" account in the consolidated statements of financial position.

Impairment of Non-financial Assets

The carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, licenses and trademarks and brand names with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

Cylinder Deposits

The Group purchases liquefied petroleum gas cylinders which are loaned to dealers upon payment by the latter of an amount equivalent to 80% to 85% of the acquisition cost of the cylinders.

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

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

Contract Liabilities

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

Fair Value Measurements

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

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

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

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

Provisions

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

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

Capital Stock and Additional Paid-in Capital

Common Shares

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

Preferred Shares

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

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

Additional Paid-in Capital

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

Retained Earnings

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

Treasury Shares

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

Revenue

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

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

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

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

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

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

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

Revenue from Power Generation and Trading

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

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

Revenue from Sale of Real Estate

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

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

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

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

Revenue from Service Concession Arrangements

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

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

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

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

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

Revenue from Sale of Other Services

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

Revenue from Other Sources

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

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

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

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

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

Costs and Expenses

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

Share-based Payment Transactions

Under the Parent Company's Long-term Incentive Plan for Stock Options (LTIP) and the Group's Employee Stock Purchase Plan (ESPP), executives and employees of the Parent Company and certain subsidiaries receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Group. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the employees of the Parent Company and certain subsidiaries are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Borrowing Costs

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

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

Research and Development Costs

Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can be reasonably regarded as assured. Any expenditure carried forward is amortized in line with the expected future sales from the related project.

The carrying amount of development costs is reviewed for impairment annually when the related asset is not yet in use. Otherwise, this is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Costs

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

Foreign Currency

Foreign Currency Translations

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

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

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

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

Foreign Operations

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

Foreign currency differences are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity. However, if the operation is not a wholly-owned subsidiary, the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in shares of stock of an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income and presented in the "Translation reserve" account in the consolidated statements of changes in equity.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

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

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

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

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

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

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

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Income and other taxes payable" accounts in the consolidated statements of financial position.

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

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

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

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

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

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

Discontinued Operations

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

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

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

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

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

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

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

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

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

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

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

Lease liabilities under finance leases recognized in the consolidated statements of financial position amounted to P142,066 as at December 31, 2018 (Note 34).

The combined carrying amounts of power plants, land and equipment classified as finance lease under PAS 17 amounted to P168,404 as at December 31, 2018 (Notes 13 and 34).

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

Rent expense recognized in the consolidated statements of income amounted to P5,244 and P4,992 in 2018 and 2017, respectively (Notes 26, 27 and 34).

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

Rent income recognized in the consolidated statements of income amounted to P1,346, P785 and P1,307 in 2019, 2018 and 2017, respectively (Notes 32 and 34).

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

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

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

The Group's lease liabilities amounted to P142,248 as at December 31, 2019 (Notes 34, 38, 40 and 41).

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

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

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

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

- a. *Airport Concession Rights.* The Group's airport concession rights consist of:
 - (i) Airport Project cost; (ii) present value of infrastructure retirement obligation (IRO); and (iii) present value of total franchise fees over 25 - 50 years and its subsequent amortization.
 - (i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost-to-cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.

(ii) The present value of the IRO is recorded under construction in progress (CIP) - airport concession arrangements and transferred to the related intangible assets upon completion of the Airport Project and to be amortized simultaneously with the cost related to the Airport Project because only at that time will significant maintenance of the Boracay Airport would commence.

(iii) The present value of the obligation to pay annual franchise fees over 25 years has been immediately recognized as part of intangible assets because the right related to it has already been granted and is already being enjoyed by the Group as evidenced by its taking over the operations of the Boracay Airport during the last quarter of 2010. Consequently, management has started amortizing the related value of the intangible asset and the corresponding obligation has likewise been recognized.

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

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

c. *Port Concession Right.* The Group's port concession right represents the right to manage, operate, develop and maintain the Manila North Harbor in 2018 (Note 5).

d. *Water Concession Right.* The Group's water concession right represents the right to collect charges from water service providers and third party purchasers availing of a public service, grant control or regulate the price and transfer significant residual interest of the water treatment facilities at the end of the Concession Agreement.

e. *Power Concession Right.* The Group's power concession right represents the right to operate and maintain the franchise of ALECO; i.e., the right to collect electricity fees from the consumers of ALECO. At the end of the concession period, all assets and improvements shall be returned to ALECO and any additions and improvements to the system shall be transferred to ALECO.

f. *MRT 7 Project.* The Concession Agreement related to the MRT 7 Project does not convey to the Group the right to control the use of the public service infrastructure but only an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. Management determined that the consideration receivable from the ROP, in exchange for the fulfillment of the obligation under the Concession Agreement, is a financial asset in the form of an unconditional right to receive cash or another financial asset.

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

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

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

Distinction Between Investment Property and Owner-occupied Property. The Group determines whether a property qualifies as investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in marketing or administrative functions. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in marketing or for administrative purposes. If the portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Classification of Redeemable Preferred Shares. Based on the features of the preferred shares of TADHC, particularly on mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of "Other noncurrent liabilities" account in the consolidated statements of financial position (Note 22).

Evaluating Control over its Investees. Determining whether the Group has control in an investee requires significant judgment. Although the Group had less than 50% of the voting rights of MNHPI in 2018, management has determined that the Group has control in this entity by virtue of its exposure and rights to variable returns from its involvement in this investee and its ability to affect those returns through its power over the investee. In 2019, management assessed that the Group has lost its control over MNHPI through the increase in the shareholdings of non-controlling interest (Note 5).

The Group receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

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

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

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

The Group uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 41.

Contingencies. The Group is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 44).

Estimates and Assumptions

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

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

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

Trade receivables written off amounted to P570 and P56 in 2019 and 2018, respectively (Note 8). The allowance for impairment losses on trade receivables amounted to P4,212 and P4,610 as at December 31, 2019 and 2018, respectively. The carrying amount of trade receivables amounted to P83,821 and P72,849 as at December 31, 2019 and 2018, respectively (Note 8).

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

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

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

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

The Group has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Group only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2018. The carrying amounts of other financial assets at amortized cost are as follows:

	<i>Note</i>	2019	2018
Other Financial Assets at Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	7	P283,507	P239,619
Other current receivables - net (included under "Trade and other receivables - net" account)	8	52,667	57,044
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	18	28,784	21,158

The allowance for impairment losses on other current receivables, included as part of "Trade and other receivables - net" account and noncurrent receivables and deposits included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position, amounted to P8,476 and P724, respectively, as at December 31, 2019, and P8,586 and P493, respectively, as at December 31, 2018 (Notes 8 and 18).

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 9, 10, 11, 12, 15, 16, 17, 18, 20, 35 and 41.

Write-down of Inventory. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P1,939 and P2,168 as at December 31, 2019 and 2018, respectively (Note 9).

The carrying amount of inventories amounted to P127,463 and P118,946 as at December 31, 2019 and 2018, respectively (Note 9).

Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Assets, Investment Property and Deferred Containers. The Group estimates the useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P476,693 and P607,277 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P197,599 and P247,352 as at December 31, 2019 and 2018, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P173,714 as at December 31, 2019. Accumulated depreciation and amortization of right-of-use assets amounted to P7,567 as at December 31, 2019 (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P51,787 and P31,837 as at December 31, 2019 and 2018, respectively. Accumulated depreciation and amortization of investment property amounted to P15,498 and P10,996 as at December 31, 2019 and 2018, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P20,806 and P18,186 as at December 31, 2019 and 2018, respectively. Accumulated amortization of deferred containers amounted to P11,526 and P10,762 as at December 31, 2019 and 2018, respectively (Note 18).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P146,099 and P143,765 as at December 31, 2019 and 2018, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P38,992 and P37,532 as at December 31, 2019 and 2018, respectively (Note 17).

Estimated Useful Lives of Intangible Assets - Concession Rights. The Group estimates the useful lives of airport, toll road, port, power and water concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as at the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power, port and water concession rights amounted to P142,185 and P138,794 as at December 31, 2019 and 2018, respectively (Note 17).

Impairment of Goodwill, Licenses and Trademarks and Brand Names with Indefinite Useful Lives. The Group determines whether goodwill, licenses and trademarks and brand names are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated and the value in use of the licenses and trademarks and brand names. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and from the licenses and trademarks and brand names and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P130,073 and P130,852 as at December 31, 2019 and 2018, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,915 and P2,843 as at December 31, 2019 and 2018, respectively (Note 17).

Acquisition Accounting. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the group of assets acquired.

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed are recognized at the date of acquisition based on their respective fair values.

The application of the acquisition method requires certain estimates and assumptions concerning the determination of the fair values of acquired intangible assets and property, plant and equipment, as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

The carrying amount of goodwill arising from business combinations amounted to P53 and P70,384 in 2019 and 2018, respectively (Notes 5, 17 and 38).

Estimating Coal Reserves. Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with "coal resource" estimates, profitability of mining the coal during a defined operating period or "mine-life" is a necessary attribute of "coal reserve".

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into: (i) positive, (ii) probable and (iii) inferred. The DOE also prescribes the use of “total in-situ reserves” as the sum of positive reserves and two-thirds of probable reserve; and “mineable reserve” as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group’s assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group’s mining activities are all in the exploratory stages as at December 31, 2019. All related costs and expenses from exploration are currently deferred as mine exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as at December 31, 2019 and 2018.

Deferred exploration and development costs included as part of “Other noncurrent assets - net” account in the consolidated statements of financial position amounted to P711 and P705 as at December 31, 2019 and 2018, respectively (Notes 18 and 34).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group’s assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P18,052 and P19,249 as at December 31, 2019 and 2018, respectively (Note 23).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment, right-of-use assets and investment property amounted to P13,197 and P12,913 as at December 31, 2019 and 2018, respectively (Notes 13, 14 and 15).

The combined carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P912,880 and P842,798 as at December 31, 2019 and 2018, respectively (Notes 11, 13, 14, 15, 16, 17 and 18).

Present Value of Defined Benefit Retirement Obligation. The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 35 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

While it is believed that the assumptions of the Group are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the defined benefit retirement obligation of the Group.

The present value of defined benefit retirement obligation amounted to P33,265 and P32,779 as at December 31, 2019 and 2018, respectively (Note 35).

Asset Retirement Obligation. The Group has ARO arising from refinery, power plants, leased service stations, terminals, blending plant and leased properties. Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Group determined the amount of the ARO by obtaining estimates of dismantling costs from the proponent responsible for the operation of the asset, discounted at the Group's current credit-adjusted risk-free rate ranging from 4.165% to 12.64% and 6.659% to 9.055% as at December 31, 2019 and 2018, respectively, depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P2,217 and P3,879 as at December 31, 2019 and 2018, respectively (Note 22).

Present Value of Annual Franchise Fee and IRO - Airport Concession Arrangement. Portion of the amount recognized as airport concession right as at December 31, 2019 and 2018 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate at 9% which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years discounted using the 9% internal borrowing rate, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P144 and P137 as at December 31, 2019 and 2018, respectively (Note 17).

The cost of infrastructure maintenance and restoration represents the present value of TADHC's IRO recognized and is presented as part of IRO under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts amounting to P9 and P74 in 2019 and P5 and P74 in 2018, respectively (Notes 20 and 22).

Percentage-of-Completion - Airport and Toll Road Concession Arrangements. The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period. Construction revenue and construction costs, reported as part of "Other income (charges) - net" account in the consolidated statements of income, amounted to P25,386, P23,062 and P18,089 as at December 31, 2019, 2018 and 2017, respectively (Note 32).

Accrual for Repairs and Maintenance - Toll Road Concession Arrangements. The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every five to eight years or the expected period to restore the toll road facilities to a level of serviceability and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax discount rate that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P566 and P814 as at December 31, 2019 and 2018, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P178 and P207 as at December 31, 2019 and 2018, respectively (Note 20).

5. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments:

Food and Beverage

- SMFB

On November 3, 2017, the BOD of the Parent Company approved the subscription to additional 4,242,549,130 common shares of stock of SMFB.

On March 23, 2018, the SEC approved the amendment to the Articles of Incorporation of SMPFC consisting of the following: (a) change of corporate name from SMPFC to SMFB; (b) change in the primary purpose to include engaging in the beverage business; (c) change in the par value of the common shares of SMFB from P10.00 per share to P1.00 per share; and (d) denial of pre-emptive rights to issuances or dispositions of any and all common shares.

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

On June 29, 2018, the SEC approved the increase in authorized capital stock of SMFB by virtue of the issuance to SMFB of the Certificate of Approval of Increase of Capital Stock and Certification of Filing of Amended Articles of Incorporation. In view of the approval of the increase in authorized capital stock, SMFB issued the New SMFB Shares in favor of the Parent Company.

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of the Parent Company's ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB. The Parent Company recognized a gain of P328,273 from the exchange of shares, presented as part of "Gain on sale of investments, property and equipment and others" account in the separate statements of income in 2018.

The tax-free exchange between SMFB and the Parent Company was confirmed by the BIR in its Certification No. SN: 010-2018 dated October 12, 2018. On October 31, 2018, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2018.

In 2018, SMC completed the follow-on offering of SMFB common shares. A total of 420,259,360 common shares were sold at a price of P85.00 per share to institutional investors inclusive of the PSE Trading Participants' share allocation, for a total net cash proceeds of P35,083. The Parent Company recognized a gain of P30,429 from the follow-on offering, presented as part of "Gain on sale of investments, property and equipment and others" account in the separate statements of income.

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

Energy

▪ SMC Global

a) Issuance of Senior Perpetual Capital Securities (SPCS)

SMC Global issued and listed on the Singapore Exchange Securities Trading Ltd. (SGX-ST), the following SPCS:

Date of Issuance	Initial Rate of Distribution Per Annum	Issue Price	Amount in US Dollar	Amount in Philippine Peso
April 25, 2019	6.5%	100%	US\$500	P26,070
July 3, 2019	6.5%	102.052%	300	15,348
November 5, 2019	5.95%	100%	500	25,205
			US\$1,300	P66,623

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of SMC Global with no fixed redemption date and are redeemable in whole, but not in part, at the SMC Global's option on Step-Up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds were used by SMC Global for the redemption of US\$300 Undated Subordinated Capital Securities (USCS) in November 2019, and will be applied for the repayment of indebtedness, for general corporate purposes, including capital expenditures and investments in power-related assets and for the development of BESS projects.

On January 21, 2020, SMC Global issued US\$600 SPCS (the US\$600 SPCS), at an issue price of 100%, with an initial rate of distribution of 5.70% per annum. The US\$600 SPCS was listed in the SGX-ST on January 22, 2020. The net proceeds from the issue of the US\$600 SPCS will be applied by SMC Global for the funding requirements of the development and completion of its BESS projects and for general corporate purposes.

b) Redemption of USCS

On November 7, 2019 (the “Step-Up Date”), SMC Global completed the redemption of the US\$300 USCS issued on May 7, 2014 (the “US\$300 USCS”) pursuant to the terms and conditions of the securities. The redemption was made after the issuance of a notice to the holders of the US\$300 USCS dated September 27, 2019. The redemption price of the US\$300 USCS includes the principal amount and any accrued but unpaid distributions up to (but excluding) the Step-Up Date.

The difference between the settlement amount and the carrying amount of the USCS in 2019 amounting to P2,073 was recognized as part of the “Equity Reserves” account in the consolidated statement of financial position as at December 31, 2019.

The US\$300 USCS was redeemed using, in part, the proceeds of the US\$500 SPCS issued on April 25, 2019.

c) Acquisition of MAPL, SMCGP Transpower Pte. Ltd. (formerly AES Transpower Private Ltd. [ATPL]) and SMCGP Philippines Inc. (formerly AES Philippines, Inc. [API]) (the “Masinloc Group”)

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

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

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

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

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

The following summarizes the recognized amount of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2018
Assets		
Cash and cash equivalents		P1,656
Trade and other receivables		2,439
Inventories		2,378
Prepaid expenses and other current assets		1,692
Property, plant and equipment	13	62,275
Other intangible assets		80
Other noncurrent assets		3,040
Liabilities		
Loans payable		(2,344)
Accounts payable and accrued expenses		(9,591)
Income and other taxes payable		(139)
Lease liabilities (including current portion)		(31)
Long-term debt - net (including current maturities)		(31,952)
Deferred tax liabilities		(55)
Other noncurrent liabilities		(204)
Total Identifiable Net Assets at Fair Value	38	P29,244

Goodwill recognized as a result of the acquisition follows:

	<i>Note</i>	2018
Total consideration transferred (cash)		P98,990
Non-controlling interest measured at proportionate interest in identifiable net assets		198
Total identifiable net assets at fair value		(29,244)
Goodwill	17, 38	P69,944

SMC Global incurred acquisition-related costs of P286 and P195 in 2018 and 2017, respectively, which have been included under "Selling and administrative expenses" account in the consolidated statements of income.

The fair value of trade and other receivables amounted to P2,439. The gross amount of the receivables is P2,503, of which P64 is expected to be uncollectible as at the acquisition date.

Goodwill arising from the acquisition of Masinloc Group is attributable to the benefit of expected synergies with the Group's energy business, revenue growth, future development and the assembled workforce. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable net assets.

The completion of the purchase price allocation exercise did not result in any adjustments to the recognized amounts of assets acquired and liabilities assumed as at December 31, 2019.

d) Additional Investment in Alpha Water

On July 13, 2018, Prime Electric Generation Corporation (PEGC), a wholly-owned subsidiary of SMC Global, acquired the remaining equity interest of ALCO Steam Energy Corporation in Alpha Water, representing sixty percent (60%) of the outstanding capital stock of Alpha Water, for a total amount of US\$10 (P532). Alpha Water is the owner of the land where the current site of the Masinloc Power Plant Complex in Zambales Province is located.

The transaction is an acquisition of non-controlling interest since the Group already has control over Alpha Water through Masinloc Group prior to the acquisition by PEGC of the 60% share in the outstanding capital stock of Alpha Water.

Fuel and Oil

▪ Petron

a) Issuance of Series 3 Perpetual Preferred Shares

On May 31, 2019, the SEC issued to Petron a permit for public offering and sale of 15,000,000 cumulative, non-voting, non-participating, non-convertible, peso-denominated perpetual preferred shares with an oversubscription option of 5,000,000 preferred shares (collectively, the “Series 3 Preferred Shares”) at an issue price of P1,000.00 per share.

On June 25, 2019, Petron issued and listed on the PSE, 20,000,000 Series 3 Perpetual Preferred Shares. The net proceeds from the issuance were used for the repayment of Petron’s outstanding short-term loans and for general corporate purposes while the remaining balance was allocated for the redemption of the Series 2A Preferred Shares in November 2019.

The Series 3 Perpetual Preferred Shares were issued in two (2) sub-series: (i) 13,403,000 Series 3A Preferred Shares with dividend rate of 6.8713% per annum and first optional redemption date on its 5.5th anniversary from the issuance date; and (ii) 6,597,000 Series 3B Preferred Shares with dividend rate of 7.1383% per annum and first optional redemption date on its 7th anniversary from the issuance date.

b) Redemption of Series 2A Preferred Shares

On November 4, 2019, Petron redeemed its 7,122,320 Series 2A Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share, with a record date of October 10, 2019. The redemption was approved by the BOD of Petron on March 12, 2019.

c) Redemption of USCS

On January 8, 2018, Petron announced a tender offer to holders of its US\$750 USCS with expiration deadline on January 16, 2018. Tenders amounting to US\$402 (P21,309) were accepted by Petron and settled on January 22, 2018. The USCS purchased pursuant to the tender offer were cancelled. On August 6, 2018, Petron redeemed the remaining US\$348 (P18,460) of the US\$750 USCS.

The difference in the settlement amount and the carrying amount of USCS amounting to P6,296 was recognized as part of the "Equity Reserves" account in the consolidated statement of financial position as at December 31, 2018.

d) Issuance of SPCS

On January 19, 2018, Petron issued US\$500 SPCS with an issue price of 100% for the partial repurchase and redemption of its existing US\$750 USCS, the repayment of indebtedness and general corporate purposes including capital expenditures. The SPCS were listed with the SGX-ST on January 22, 2018.

The SPCS were offered for sale and sold to qualified buyers and not more than 19 institutional lenders. Hence, the sale of SPCS was considered an exempt transaction for which no confirmation of exemption from the registration requirements of the Securities Regulation Code was required to be filed with the SEC.

Holders of the SPCS are conferred a right to receive distribution on a semi-annual basis from their issue date at the rate of 4.6% per annum, subject to a step-up rate. Petron has a right to defer the distribution under certain conditions.

The SPCS have no fixed redemption date and are redeemable in whole, but not in part, at their principal amounts together with any accrued, unpaid, or deferred distributions, at Petron's option on or after July 19, 2023 or on any distribution payment date thereafter or upon the occurrence of certain other events.

e) Additional Investment in NVRC

On December 17, 2018, the SEC approved the increase in authorized capital stock of NVRC. On the same date, Petron acquired additional 2,840,000 common shares of NVRC for a total consideration of P2,840 or P1,000.00 per share, which was effected through debt to equity conversion of NVRC's advances from Petron. As a result, the ownership interest of Petron in NVRC increased from 40.00% to 85.55% (Note 4).

▪ SRC

On December 12, 2018, SRC and the Parent Company executed a Subscription Agreement to subscribe to additional 10,000,000 common shares for a total subscription price of P1,510 or P151.00 per common share. The subscription price was fully paid on December 12, 2018.

Infrastructure

▪ MNHPI

The Philippine Competition Commission and Philippine Ports Authority approved the transfer of equivalent to 15.17% shareholdings in MNHPI to International Container Terminal Services, Inc. (ICTSI) on March 15 and April 26, 2019, respectively. With the approval of the additional ownership in MNHPI, the total equity interest of ICTSI increased from 34.83% to 50%, while SMHC's shareholdings in MNHPI remain at 43.33%.

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as at April 26, 2019 and recognized the investment at fair market value amounting to P2,600. As a result, the Group recognized a gain amounting to P727, included as part of “Other income (charges) - net” account in the consolidated statements of income (Note 4).

The following summarizes the accounts derecognized at the deconsolidation date:

	Note	2019
Cash and cash equivalents		P621
Trade and other receivables - net		548
Inventories		280
Prepaid expenses and other current assets		169
Property, plant and equipment - net		38
Goodwill	17	325
Other intangible assets - net	17	11,214
Deferred tax assets		56
Other noncurrent assets - net		103
Loans payable		(3,568)
Accounts payable and accrued expenses		(1,493)
Income and other taxes payable		(100)
Lease liabilities (including current portion)		(44)
Long-term debt		(300)
Other noncurrent liabilities		(2,499)
Non-controlling interest		(2,847)
Equity reserves		(630)
Total		P1,873

▪ **SMHC**

On December 27, 2018, the Parent Company, in a Deed of Subscription executed on the same date, subscribed to an additional 4,635,367 common shares of SMHC for a total subscription price of P6,953 or P1,500.00 per common share. The subscription price was paid in full in 2018.

On September 24, 2019, SMHC and the Parent Company, executed a Subscription Agreement to subscribe to an additional 13,764,633 common shares for a total subscription price of P20,647 or P1,500.00 per common share. In 2019, the Parent Company paid P16,382.

Packaging

▪ **SMYPC**

On September 19, 2019, the BOD and stockholders of SMYPC resolved and approved to increase its authorized capital stock from P11,000 divided into 11,000,000 common shares to P20,000 divided into 20,000,000 common shares, both with a par value of P1,000.00 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on October 25, 2019 and was approved on February 24, 2020.

On October 31, 2019, the Parent Company and SMYPC executed a subscription agreement whereby the Parent Company agreed to subscribe to 3,901,011 common shares from the increase in authorized capital stock of SMYPC. The said shares will be issued by SMYPC in exchange for the SMYAC shares held by the Parent Company upon the effectivity of the merger between SMYPC and SMYAC on March 1, 2020.

- SMYAC

On September 12, 2019, the BOD of the Parent Company approved the following: (i) purchase by the Parent Company of 5% of SMYAC, (ii) merger of SMYAC with SMYPC, where SMYPC will be the surviving entity; and (iii) delegation of authority to management to determine the relevant terms and conditions of any deed, agreement or document required to give effect to the proposed transactions.

On September 19, 2019, the merger was approved by the respective BOD and stockholders of SMYPC and SMYAC.

On October 23, 2019, the Parent Company executed a Deed of Absolute Sale of Shares with Nihon Yamamura Glass Ltd. (NYG) to acquire 850,000 shares in SMYAC, consisting of 350,000 common shares and 500,000 preferred shares for a total consideration of P300, representing additional 5% ownership interest. The Parent Company paid P300 in cash. As a result of the acquisition, the Parent Company and NYG's equity interest in SMYAC became 65% to 35%, respectively.

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

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

As at March 12, 2020, SMYPC is in the process of completing the requirements for the application with the BIR for a tax-free exchange certification/ruling on the merger.

- Wine Brothers Philippines Corporation (WBPC)

On July 12, 2018, the Parent Company through SMYPC incorporated WBPC, a wholly-owned subsidiary, with an authorized capital stock of P10 divided into 100,000 shares with a par value of P100.00 per share. The Parent Company, through SMYPC, subscribed to the initial authorized capital stock of WBPC for a total subscription price of P10 or P100.00 per share.

WBPC was incorporated primarily to carry on operations as an importer and distributor of wine products.

- SMYJ

On June 1, 2018, the Parent Company through SMYA acquired 100% ownership interest in SMYJ, formerly JMP Holdings Pty Ltd., for a total consideration of P590.

SMYJ is a company engaged in retail packaging products, transport packaging solutions and other products and services based in Victoria, Australia.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date:

	<i>Note</i>	2018
Assets		
Cash		P32
Trade and other receivables		165
Inventories		199
Prepaid expenses and other current assets		2
Property, plant and equipment	13	15
Deferred tax assets		4
Liabilities		
Accounts payable and accrued expenses		(261)
Other noncurrent liabilities		(6)
Total Identifiable Net Assets at Fair Value	38	P150

The fair value of trade and other receivables amounted to P165. None of the receivables has been impaired and the full amount is expected to be collected.

The recognized goodwill amounting to P440 pertains to the excess of the consideration paid over the fair values of assets acquired and liabilities assumed as at the acquisition date.

The completion of the purchase price allocation exercise did not result in any adjustments to the recognized amounts of assets acquired and liabilities assumed as at December 31, 2019.

Real Estate

- SMPI

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

On February 19, 2018, SMPI and the Parent Company executed a Subscription Agreement to subscribe to an additional 62,500,000 common shares of SMPI for a total subscription price of P1,250 or P20.00 per common share. The subscription price was fully paid in 2018.

- DHDC

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

Others

- SMC Equivest Corporation (SMCEC)

On December 10, 2018, SMCEC and the Parent Company executed a Subscription Agreement to subscribe to an additional 75,000,000 common shares of SMCEC for a total subscription price of P113 or P1.50 per common share. The subscription price was fully paid in 2018.

On December 10, 2018, the BOD and stockholders of SMCEC approved the increase in the authorized capital stock from P100 divided into 100,000,000 common shares to P1,100 divided into 1,100,000 common shares, both with a par value of P1.00 per common share. On the same date, the Parent Company in a Subscription Agreement, subscribed to 650,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P975 or P1.50 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 21, 2018 and was approved on March 27, 2019. The subscription price was fully paid in 2018.

- SMNCI

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in Norther Cement Corporation (NCC) comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 11). Prior to the sale, SMEII and NCC held 70% and 30% ownership interests in SMNCI, respectively. With the sale by SMYPC of its investment in NCC to SMEII, the Group's effective ownership interest in SMNCI increased from 76.825% to 80.5%.

On various dates in 2019, SMEII and SMNCI executed Subscription Agreements for the subscription of a total additional 4,066,670,000 common shares out of the unissued capital stock of SMNCI for a total subscription price of P6,100 or P1.50 per share. As at December 31, 2019, the Group's effective ownership interest in SMNCI is 92.58%.

- SMHL

On July 30, 2018, the BOD and stockholders of SMHL resolved and approved to increase its authorized capital stock from US\$150 divided into 5,000,000 common shares with par value of US\$10.00 per share and 10,000,000 preferred shares with par value of US\$10.00 per share to US\$700 divided into 5,000,000 common shares with par value of US\$10.00 per share and 65,000,000 preferred shares with par value of US\$10.00 per share. The application of the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMHL was filed with the BVI Company Registry on December 14, 2018 and was approved on December 17, 2018.

On December 14, 2018, SMHL issued to the Parent Company an additional 17,800,000 preferred shares from the increase in authorized capital stock, for a total subscription price of US\$178 (P9,413) or US\$10.00 per preferred share. In 2018, the Parent Company paid US\$175 (P9,243), the balance amounting to US\$3 (P169) was paid in full in 2019.

The holders of the preferred shares have the right to receive, in priority to any payments to the holders of common shares, out of the funds of SMHL available for distribution a non-cumulative preference divided at the rate of 4% per cent per annum on the par value of the preference shares. In addition, the holders of the preferred shares shall be entitled pari passu with the holders of the common shares to any dividends or distributions which the BOD may from time to time declare.

- SMCSLC

On July 20, 2018, the BOD and stockholders of SMCSLC resolved and approved the increase in authorized capital stock from P150 divided into 15,000,000 common shares to P5,650 divided into 565,000,000 common shares, both with a par value of P10.00 per share. The Parent Company, in a Subscription Agreement executed on July 23, 2018, subscribed to 245,000,000 common shares for a total subscription price of P3,675 or P15.00 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on August 8, 2018 and was approved on December 19, 2018. The subscription price was paid in full in 2018.

- ArchEn

On June 28, 2018, the BOD and stockholders of ArchEn approved the increase in the authorized capital stock from P100 divided into 1,000,000 common shares to P300 divided into 3,000,000 common shares, both with a par value of P100.00 per common share. On the same date, the Parent Company in a Subscription Agreement, subscribed to 2,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P200 or P100.00 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 5, 2018 and was approved on March 15, 2019. The Parent Company initially paid P50 in 2018 while the remaining balance amounting to P150 was paid in 2019.

- SMILSI

On June 22, 2018, the BOD and stockholders of SMILSI approved the increase in its authorized capital stock from P20 divided into 20,000,000 common shares to P1,020 divided into 1,020,000,000 common shares, both with a par value of P1.00 per common share. On the same date, the Parent Company in a Subscription Agreement, subscribed to 250,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P375 or P1.50 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on January 21, 2019 and was approved on January 31, 2019. The Parent Company initially paid P227 in 2018 while the remaining balance amounting to P148 was paid in 2019.

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

- SMCACDC

On August 7, 2017, the BOD and stockholders of SMCACDC resolved and approved the increase in authorized capital stock from P1,000 divided into 10,000,000 common shares with a par value of P100.00 per share to P6,000 divided into 10,000,000 common shares with a par value of P100.00 per common share and 5,000,000 preferred shares with a par value of P1,000.00 per preferred share. Out of the increase in authorized capital stock, the Parent Company subscribed to 3,500,000 preferred shares at the subscription price of P1,000.00 per preferred share or a total subscription amount of P3,500.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on December 11, 2018 and was approved on January 16, 2019

The preferred shares issued by SMCACDC are nonvoting, nonconvertible, and redeemable at the sole option of SMCACDC at a price and at such time that the BOD of SMCACDC shall determine. The preferred shares are entitled to dividends as declared by the BOD of SMCACDC. In the event of liquidation, dissolution, bankruptcy, or winding up of the affairs of SMCACDC, the holders of preferred stocks that are outstanding at that time shall enjoy preference in the payment. Furthermore, holders of preferred shares have no pre-emptive right to any issue or disposition of any stocks of any class of SMCACDC.

The details of the Group's material non-controlling interests are as follows:

	December 31, 2019		December 31, 2018	
	Petron	SMFB	Petron	SMFB
Percentage of non-controlling interests	31.74%	11.24%	31.74%	11.24%
Carrying amount of non-controlling interests	P66,220	P68,938	P55,600	P62,191
Net income attributable to non-controlling interests	P3,372	P16,685	P5,902	P14,011
Other comprehensive income (loss) attributable to non-controlling interests	(P1,092)	(P315)	P256	P695
Dividends paid to non-controlling interests	P3,750	P10,067	P5,169	P7,636

The following are the audited condensed financial information of investments in subsidiaries with material non-controlling interests:

	December 31, 2019		December 31, 2018	
	Petron	SMFB	Petron	SMFB
Current assets	P179,488	P113,107	P162,022	P107,034
Noncurrent assets	215,347	152,860	196,132	131,470
Current liabilities	(158,374)	(73,072)	(156,018)	(83,905)
Noncurrent liabilities	(144,031)	(49,714)	(115,950)	(24,484)
Net Assets	P92,430	P143,181	P86,186	P130,115
Sales	P514,362	P310,785	P557,386	P286,378
Net income	P2,303	P32,279	P7,069	P30,533
Other comprehensive income (loss)	(3,048)	(538)	494	1,412
Total Comprehensive Income (Loss)	(P745)	P31,741	P7,563	P31,945
Cash flows provided by operating activities	P25,362	P42,574	P5,047	P36,827
Cash flows used in investing activities	(20,467)	(28,184)	(11,141)	(26,013)
Cash flows provided by (used in) financing activities	13,116	(16,994)	5,949	(7,378)
Effect of exchange rate changes on cash and cash equivalents	(1,199)	(370)	536	449
Net increase (decrease) in cash and cash equivalents	P16,812	(P2,974)	P391	P3,885

6. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, energy, fuel and oil, and infrastructure.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products, (ii) the production and sale of feeds, (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats, and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply contracts, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

Operating Segments

Financial information about reportable segments follows:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Sales																								
External sales	P310,482	P286,205	P251,487	P25,327	P24,674	P23,192	P131,580	P116,933	P80,256	P508,700	P551,285	P431,720	P23,399	P24,530	P22,497	P21,014	P21,316	P16,934	P -	P -	P -	P1,020,502	P1,024,943	P826,086
Inter-segment sales	303	173	102	12,547	12,651	8,907	3,480	3,170	2,535	5,662	6,101	2,904	7	-	-	19,873	17,252	20,055	(41,872)	(39,347)	(34,503)	-	-	-
Total sales	P310,785	P286,378	P251,589	P37,874	P37,325	P32,099	P135,060	P120,103	P82,791	P514,362	P557,386	P434,624	P23,406	P24,530	P22,497	P40,887	P38,568	P36,989	(P41,872)	(P39,347)	(P34,503)	P1,020,502	P1,024,943	P826,086
Result																								
Segment result	P47,781	P45,950	P42,401	P3,598	P3,311	P2,994	P35,954	P33,174	P24,276	P16,101	P22,434	P29,463	P11,444	P11,828	P10,440	P991	P2,078	P2,042	(P154)	(P1,690)	(P574)	P115,715	P117,085	P111,042
Interest expense and other financing charges																						(56,019)	(45,496)	(35,714)
Interest income																						10,675	7,192	4,525
Equity in net earnings (losses) of associates and joint ventures																						105	(289)	297
Gain (loss) on sale of investments and property and equipment																						(237)	252	879
Other income (charges) - net																						6,848	(5,628)	154
Income tax expense																						(28,513)	(24,468)	(26,369)
Net Income																						P48,574	P48,648	P54,814
Attributable to:																								
Equity holders of the Parent Company																						P21,329	P23,077	P28,225
Non-controlling interests																						27,245	25,571	26,589
Net Income																						P48,574	P48,648	P54,814
Other Information																								
Segment assets	P224,862	P197,133	P163,679	P58,436	P51,122	P39,934	P475,143	P410,755	P332,344	P385,838	P348,996	P329,170	P230,375	P213,096	P190,186	P308,290	P308,442	P260,613	(P109,714)	(P97,177)	(P93,487)	P1,573,230	P1,432,367	P1,222,439
Investments in and advances to associates and joint ventures	58	280	346	-	-	4,418	11,001	12,148	16,621	12	10	11	3,968	745	745	37,822	37,336	13,396	-	-	-	52,861	50,519	35,537
Goodwill and trademarks and brand names																						130,777	131,560	60,829
Other assets																						42,814	42,947	42,426
Deferred tax assets																						18,052	19,249	18,412
Consolidated Total Assets																						P1,817,734	P1,676,642	P1,379,643

Forward

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Eliminations			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Segment liabilities	P50,773	P44,373	P35,992	P10,343	P11,207	P10,107	P28,129	P23,700	P25,633	P71,831	P57,989	P56,790	P45,193	P47,349	P45,377	P81,903	P72,473	P74,667	(P93,459)	(P86,435)	(P88,765)	P194,713	P170,656	P159,801
Loans payable																						169,492	184,024	149,863
Long-term debt																						682,804	617,615	399,492
Lease liabilities																						142,248	142,066	154,897
Income and other taxes payable																						21,185	19,901	16,653
Dividends payable and others																						7,632	7,534	7,201
Deferred tax liabilities																						25,265	22,899	20,674
Consolidated Total Liabilities																						P1,243,339	P1,164,695	P908,581
Capital expenditures (Note 13)	P18,163	P13,999	P12,614	P5,207	P6,303	P1,974	P10,108	P6,056	P9,065	P19,769	P10,416	P9,699	P598	P601	P445	P12,960	P9,948	P4,896	P -	P -	P -	P66,805	P47,323	P38,693
Depreciation and amortization of property, plant and equipment																								
(Notes 13 and 28)	3,621	3,037	2,758	1,960	1,816	1,661	4,587	9,189	5,949	10,328	9,893	9,961	371	265	205	2,794	2,373	2,207	-	-	-	23,661	26,573	22,741
Noncash items other than depreciation and amortization of property, plant and equipment	5,387	6,662	4,894	691	(806)	226	2,224	6,011	547	180	4,279	381	5,219	4,706	5,001	(3,700)	2,740	(409)	-	-	-	10,001	23,592	10,640
Loss on impairment of property, plant and equipment, and other noncurrent assets	1,015	655	534	241	37	19	35	70	-	282	-	-	-	-	-	-	(257)	57	-	-	-	1,573	505	610

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage			Packaging			Energy			Fuel and Oil			Infrastructure			Others			Consolidated		
	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017	2019	2018	2017
Timing of Revenue Recognition																					
Sales recognized at point in time	P310,410	P286,094	P251,394	P24,570	P23,972	P22,489	P -	P -	P -	P508,700	P551,285	P431,720	P -	P -	P -	P16,659	P16,720	P13,578	P860,339	P878,071	P719,181
Sales recognized over time	72	111	93	757	702	703	131,580	116,933	80,256	-	-	-	23,399	24,530	22,497	4,355	4,596	3,356	160,163	146,872	106,905
Total External Sales	P310,482	P286,205	P251,487	P25,327	P24,674	P23,192	P131,580	P116,933	P80,256	P508,700	P551,285	P431,720	P23,399	P24,530	P22,497	P21,014	P21,316	P16,934	P1,020,502	P1,024,943	P826,086

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2019	2018
Cash in banks and on hand		P72,880	P38,716
Short-term investments		213,577	204,434
	4, 40, 41	P286,457	P243,150

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Group and earn interest at short-term investment rates (Note 31).

8. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2019	2018
Trade		P86,794	P76,494
Non-trade		47,205	50,257
Amounts owed by related parties	33, 35	15,177	16,338
		149,176	143,089
Less allowance for impairment losses	4, 5	12,688	13,196
	4, 40, 41	P136,488	P129,893

Trade receivables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade receivables consist primarily of claims from the Government, interest receivable, claims receivable, contracts receivable and others. Claims from the Government consist of duty drawback, VAT and specific tax claims, subsidy receivables from the Government of Malaysia under the Automatic Pricing Mechanism and due from PSALM pertaining to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015 (Note 44).

Amounts owed by related parties include trade receivables amounting to P1,239 and P965 as at December 31, 2019 and 2018, respectively.

The movements in the allowance for impairment losses are as follows:

	<i>Note</i>	2019	2018
Balance at beginning of year		P13,196	P12,787
Charges for the year	27, 32	323	353
Amounts written off	4	(577)	(474)
Translation adjustments and others		(254)	530
Balance at end of year		P12,688	P13,196

9. Inventories

Inventories consist of:

	<i>Note</i>	2019	2018
At net realizable value:			
Finished goods and goods in process (including petroleum products)		P85,158	P77,231
Materials and supplies (including coal)		38,040	37,635
At cost:			
Raw land inventory and real estate projects		4,265	4,080
	4	P127,463	P118,946

The cost of finished goods and goods in process amounted to P86,162 and P78,371 as at December 31, 2019 and 2018, respectively.

If the Group used the moving-average method (instead of the first-in, first-out method, which is the Group's policy), the cost of petroleum, crude oil and other petroleum products would have increased by P1,374 and decreased by P942 as at December 31, 2019 and 2018, respectively.

The cost of materials and supplies amounted to P38,975 and P38,663 as at December 31, 2019 and 2018, respectively.

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P130 and P128 as at December 31, 2019 and 2018, respectively, with corresponding costs at point of harvest amounting to P104 and P135, respectively. Net unrealized gain (loss) on fair valuation of agricultural produce amounted to P26, (P7) and P37 in 2019, 2018 and 2017, respectively (Note 16).

The fair values of marketable hogs and grown broilers, which comprised the Group's agricultural produce, are categorized as Level 1 and Level 3, respectively, in the fair value hierarchy based on the inputs used in the valuation techniques.

The valuation model used is based on the following: (a) quoted prices for harvested mature grown broilers at the time of harvest; and (b) quoted prices in the market at any given time for marketable hogs; provided that there has been no significant change in economic circumstances between the date of the transactions and the reporting date. Costs to sell are estimated based on the most recent transaction and is deducted from the fair value in order to measure the fair value of agricultural produce at point of harvest. The estimated fair value would increase (decrease) if weight and quality premiums increase (decrease) (Note 4).

The net realizable value of raw land inventory and real estate projects is higher than the carrying amount as at December 31, 2019 and 2018, based on management's assessment.

The fair value of raw land inventory amounted to P10,740 and P10,218 as at December 31, 2019 and 2018, respectively. The fair value has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

In estimating the fair value of the raw land inventory, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's raw land inventory are their current use.

The Level 3 fair value of raw land inventory was derived using the observable recent transaction prices for similar raw land inventory in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value (Note 4).

10. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2019	2018
Prepaid taxes and licenses		P72,386	P74,414
Restricted cash - current	40, 41	6,256	9,038
Advances to contractors and suppliers	33	1,782	1,700
Derivative assets	40, 41	917	1,174
Prepaid insurance		786	664
Prepaid rent		315	719
Catalyst		304	159
Financial assets at FVPL	40, 41	284	254
Financial assets at amortized cost - current portion	4, 12, 40, 41	71	40
Financial assets at FVOCI - current portion	4, 12, 40, 41	38	54
Others	34	3,446	3,827
		P86,585	P92,043

Restricted cash - current represents: (i) cash in banks maintained by Vertex, PIDC, MTDME, SIDC, CCEC, AAIPC and LCWDC in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts; and (ii) Cash Flow Waterfall accounts of SCPC, SMCP and MPPCL, maintained with a local Trust Company as required in its respective credit facilities.

"Others" consist mainly of prepayments for various operating expenses, PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM (Note 34) and contract assets pertaining to the Group's right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

The methods and assumptions used to estimate the fair values of restricted cash, derivative assets, financial assets at FVPL, and financial assets at FVOCI are discussed in Note 41.

11. Investments and Advances

Investments and advances consist of:

	<i>Note</i>	2019	2018
Investments in Shares of Stock of Associates and Joint Ventures - at Equity			
Acquisition Cost			
Balance at beginning of year		P22,319	P21,242
Additions		1,266	1,077
Reclassification from investment in shares of stock of subsidiaries	5	1,310	-
Reclassification to investment in shares of stock of subsidiaries		(965)	-
Balance at end of year		23,930	22,319
Accumulated Equity in Net Earnings			
Balance at beginning of year		563	866
Reclassification from investment in shares of stock of subsidiaries	5	1,300	-
Equity in net earnings (losses)		105	(289)
Reclassification to investment in shares of stock of subsidiaries		10	-
Share in other comprehensive income (loss)		(25)	2
Dividends		-	(16)
Balance at end of year		1,953	563
		25,883	22,882
Advances		26,978	27,637
	4	P52,861	P50,519

Investments in Shares of Stock of Associates

a. NCC

In 2017, SMC through SMYPC, has 35% equity interest in NCC representing 104,500,000 common shares.

On November 28, 2018, SMEII entered into a Deed of Absolute Sale of Shares with SMYPC covering the sale by the latter of its 35% equity interest in NCC comprising of 104,500,000 common shares for a total consideration of P5,000 (Note 5).

NCC is primarily engaged in the business of manufacturing, developing, processing, exploiting, buying, selling, or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

b. Bank of Commerce (BOC)

SMC through SMPI has 39.93% equity ownership interest in BOC representing 44,817,164 common shares. BOC is engaged in commercial banking services.

On December 17, 2018, SMC through SMC Equivest, in a Deed of Absolute Sale of Shares, acquired 5,258,956 common shares of BOC representing 4.69% ownership interest for a total consideration of P1,077.

c. MPGC

On January 25, 2019, SMC Global subscribed to the remaining unissued 18,314,898 common shares of MPGC, thereby increasing SMC Global's ownership interest in MPGC from 49% to 73.58%. SMC Global then subscribed to an additional 58,000,000 common shares out of the proposed increase in the authorized capital stock of MPGC at the subscription price of P100.00 per share, or total subscription amount of P5,800 on September 6, 2019, when the increase of the authorized capital stock of MPGC was approved by the Philippine SEC on the same date. As at December 31, 2019, SMC Global effectively owns 89.54% of MPGC.

MPGC shall develop, construct, finance, own, operate and maintain a 4 x 150 MW Circulating Fluidized Bed (CFB) Coal-fired Power Plant and associated facilities in Mariveles, Bataan.

Investments in Shares of Stock of Joint Ventures

a. Angat Hydro and KWPP

PVEI, a subsidiary of SMC Global has an existing joint venture agreement with Korea Water Resources Corporation (K-Water), covering the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

PVEI holds 30,541,470 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

In January 2017, PVEI granted shareholder advances amounting to US\$32 to Angat Hydro. The advances bear annual interest rate of 4.5% and were due initially on April 30, 2017. The due date of the advances may be extended as agreed amongst the parties.

On April 10 and December 27, 2017, Angat Hydro made partial payments of the foregoing advances plus interest totaling US\$20 to PVEI.

On March 1 and October 16, 2018, PVEI collected partial payouts totaling US\$10 from Angat Hydro. Payment date of the remaining balance of the advances amounting to US\$2 was extended to December 31, 2020.

b. MNHPI

As discussed in Note 5, MNHPI ceased to be a subsidiary of SMHC following the increase in shareholdings of non-controlling interest as at April 26, 2019 (Note 5).

In December 2019, SMHC acquired for a total amount of P1,060, additional 1,950,000 and 50,000 common shares of stock of MNHPI from IZ Investment Holdings, Inc. and Petron, respectively. With the acquisition of the additional shares, SMHC increased its equity interest in MNHPI from 43.33% to 50%.

Advances

- a. SMPI made advances to future investees amounting to P873 and P870 as at December 31, 2019 and 2018, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies.
- b. SMC Global and SMEC made deposits to certain landholding companies and power-related expansion projects amounting to P5,161 and P4,963 as at December 31, 2019 and 2018, respectively. These deposits will be applied against future stock subscriptions.
- c. On June 29, 2016, SMHL entered into an Investment Agreement (the Agreement) with Bryce Canyon Investments Limited, a British Virgin Island business company, for the sale and purchase of assets, as defined in the Agreement, upon the satisfaction of certain conditions set out in the Agreement. As at December 31, 2019 and 2018, outstanding investment advances amounted to P19,805 and P19,784, respectively.
- d. Other advances pertain to deposits made to certain companies which will be applied against future stock subscriptions.

The details of the Group's material investments in shares of stock of associates and joint ventures which are accounted for using the equity method are as follows:

	December 31, 2019							December 31, 2018					
	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others	Total		Angat Hydro and KWPP	NCC	BOC	MPGC	Others	Total
Country of incorporation	Philippines	Philippines	Philippines	Philippines				Philippines	Philippines	Philippines	Philippines		
Percentage of ownership	60.00%	35.00%	44.62%	50.00%				60.00%	35.00%	44.62%	49.00%		
Share in net income (loss)	(P410)	P171	P304	P212	(P172)	P105		(P481)	P203	P20	P -	(P31)	(P289)
Share in other comprehensive income (loss)	-	(13)	(28)	-	16	(25)		-	(4)	(12)	-	18	2
Share in total comprehensive income (loss)	(P410)	P158	P276	P212	(P156)	P80		(P481)	P199	P8	P -	(P13)	(P287)
Dividends received	P -	P -	P -	P -	P -	P -		P -	P -	P -	P -	P16	P16
Carrying amount of investments in shares of stock of associates and joint ventures	P5,634	P4,775	P10,673	P3,873	P928	P25,883		P6,044	P4,617	P10,397	P954	P870	P22,882

The following are the audited condensed financial information of the Group's material investments in shares of stock of associates and joint ventures:

	December 31, 2019						December 31, 2018				
	Angat Hydro and KWPP	NCC	BOC	MNHPI	Others		Angat Hydro and KWPP	NCC	BOC	MPGC	Others
Current assets	P2,627	P2,427	P68,430	P1,488	P5,629		P2,886	P2,597	P76,946	P18	P4,775
Noncurrent assets	17,558	8,949	76,603	11,127	2,897		18,075	8,654	76,997	1,961	2,514
Current liabilities	(1,279)	(1,274)	(126,284)	(4,382)	(4,936)		(1,061)	(1,876)	(133,577)	(32)	(4,130)
Noncurrent liabilities	(11,685)	(1,016)	(2,654)	(2,725)	(614)		(11,996)	(925)	(2,386)	-	(734)
Net assets	P7,221	P9,086	P16,095	P5,508	P2,976		P7,904	P8,450	P17,980	P1,947	P2,425
Sales	P1,588	P8,165	P6,532	P4,170	P4,348		P1,575	P8,455	P5,218	P -	P4,227
Net income (loss)	(P683)	P679	P653	P658	P108		(P751)	P761	P50	P1	P209
Other comprehensive income (loss)	-	(36)	(65)	(2)	(21)		-	(11)	(30)	-	43
Total comprehensive income (loss)	(P683)	P643	P588	P656	P87		(P751)	P750	P20	P1	P252

12. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

	<i>Note</i>	2019	2018
Equity securities		P41,305	P41,407
Proprietary membership shares and others		439	381
Government and other debt securities		420	432
	4, 40, 41	42,164	42,220
Less current portion	10	109	94
		P42,055	P42,126

Equity Securities

Equity securities include the investments in the shares of stock of Top Frontier consisting of 2,561,031 common shares and 1,904,540 preferred shares with a total amount of P35,954 and P36,057 as at December 31, 2019 and 2018, respectively.

Debt Securities

Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 4.25% to 7.02% in 2019 and 3.88% to 7.02% in 2018 (Note 31).

The movements in investments in equity and debt instruments are as follows:

	<i>Note</i>	2019	2018
Balance at beginning of year		P42,220	P42,268
Additions		71	54
Disposals		(94)	(203)
Fair value gain (loss)		(33)	37
Amortization of premium		-	(2)
Acquisition of subsidiaries		-	55
Currency translation adjustments and others		-	11
Balance at end of year	4, 10, 40, 41	P42,164	P42,220

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Note 41.

The investments in equity and debt instruments are classified as follows:

	2019	2018
Noncurrent		
Financial assets at FVOCI	P41,869	P41,940
Financial assets at amortized cost	186	186
	42,055	42,126
Current		
Financial assets at FVOCI	38	54
Financial assets at amortized cost	71	40
	109	94
	P42,164	P42,220

13. Property, Plant and Equipment

Property, plant and equipment consist of:

	Note	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost										
January 1, 2018		P35,935	P50,635	P268,318	P167,417	P17,440	P136,160	P3,677	P69,102	P748,684
Additions		1,699	481	67	426	424	5,193	71	38,962	47,323
Acquisition of subsidiaries	38	906	975	53,226	-	156	2,382	37	23,484	81,166
Disposals/retirement		(58)	(426)	(32)	(16)	(665)	(1,490)	(39)	(2)	(2,728)
Reclassifications	15	(9,204)	(9,283)	28,937	1,776	367	9,541	1,764	(46,469)	(22,571)
Currency translation adjustments		302	534	408	370	246	683	(9)	221	2,755
December 31, 2018 (Audited)		29,580	42,916	350,924	169,973	17,968	152,469	5,501	85,298	854,629
Adjustments due to adoption of PFRS 16	3	(482)	(4)	(214,358)	(1,816)	(176)	(915)	-	(8)	(217,759)
December 31, 2018 (as adjusted)		29,098	42,912	136,566	168,157	17,792	151,554	5,501	85,290	636,870
Additions		2,424	1,523	234	6,000	1,769	6,265	207	48,383	66,805
Acquisition of subsidiaries	38	1,456	270	-	-	-	716	5	79	2,526
Disposals/retirement		(5)	(54)	(69)	(38)	(464)	(2,818)	(35)	(316)	(3,799)
Reclassifications	15	4,105	7,068	(11,426)	223	432	14,773	1,310	(38,800)	(22,315)
Currency translation adjustments		(368)	(611)	(1,798)	(153)	(246)	(1,407)	(15)	(1,197)	(5,795)
December 31, 2019		36,710	51,108	123,507	174,189	19,283	169,083	6,973	93,439	674,292
Accumulated Depreciation and Amortization										
January 1, 2018		3,663	22,843	43,579	45,090	12,208	84,031	1,269	-	212,683
Depreciation and amortization	6, 28	176	1,214	9,995	6,308	1,141	7,465	274	-	26,573
Acquisition of subsidiaries	38	-	75	17,973	-	31	732	32	-	18,843
Disposals/retirement		(58)	(422)	(8)	(16)	(658)	(1,195)	(33)	-	(2,390)
Reclassifications		(1,034)	(7,828)	-	-	(246)	(349)	(12)	-	(9,469)
Currency translation adjustments		13	234	126	257	126	358	(2)	-	1,112
December 31, 2018 (Audited)		2,760	16,116	71,665	51,639	12,602	91,042	1,528	-	247,352
Adjustments due to adoption of PFRS 16	3	-	(2)	(46,938)	(193)	(63)	(450)	(108)	-	(47,754)
December 31, 2018 (as adjusted)		2,760	16,114	24,727	51,446	12,539	90,592	1,420	-	199,598
Depreciation and amortization	6, 28	249	1,395	5,487	6,523	1,098	8,583	326	-	23,661
Acquisition of subsidiaries	38	116	164	-	-	-	284	3	-	567
Disposals/retirement		(5)	(40)	(3)	(35)	(445)	(2,602)	(21)	-	(3,151)
Reclassifications		(20)	59	(17,794)	1	(166)	(3,060)	(86)	-	(21,066)
Currency translation adjustments		(64)	(171)	(735)	(214)	(148)	(672)	(6)	-	(2,010)
December 31, 2019		3,036	17,521	11,682	57,721	12,878	93,125	1,636	-	197,599
Accumulated Impairment Losses										
January 1, 2018		266	2,703	-	-	-	9,418	28	-	12,415
Impairment		-	454	-	-	-	163	-	-	617
Disposals/retirement		-	-	-	-	-	(13)	-	-	(13)
Reclassifications		(266)	(16)	-	-	-	26	-	-	(256)
Currency translation adjustments		-	(2)	-	-	-	145	(1)	-	142
December 31, 2018 (Audited)		-	3,139	-	-	-	9,739	27	-	12,905
Impairment	32	-	194	-	-	-	682	-	-	876
Disposals/retirement		-	-	-	-	-	(35)	-	-	(35)
Reclassifications		-	(73)	-	-	-	-	-	-	(73)
Currency translation adjustments		-	(158)	-	-	-	(434)	(2)	-	(594)
December 31, 2019		-	3,102	-	-	-	9,952	25	-	13,079
Carrying Amount										
December 31, 2018		P26,820	P23,661	P279,259	P118,334	P5,366	P51,688	P3,946	P85,298	P594,372
December 31, 2019		P33,674	P30,485	P111,825	P116,468	P6,405	P66,006	P5,312	P93,439	P463,614

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

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P24,537, P27,190 and P23,275 in 2019, 2018 and 2017, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P562, P542 and P492 in 2019, 2018 and 2017, respectively.

The Group has interest amounting to P3,103 and P2,003 which was capitalized in 2019 and 2018, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 5.74% to 9.09% and 2.29% to 7.99% in 2019 and 2018, respectively. The unamortized capitalized borrowing costs amounted to P16,700 and P14,159 as at December 31, 2019 and 2018, respectively.

The combined carrying amounts of power plants, land and equipment classified as finance lease under PAS 17 amounted to P168,404 as at December 31, 2018. (Notes 4 and 34).

14. Right-of-Use Assets

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

	<i>Note</i>	Land	Buildings and Improvements	Power Plants	Service Stations and Other Equipment	Machinery and Equipment	Total
Cost							
Adjustment due to adoption of PFRS 16	3	P13,365	P1,063	P167,387	P24	P504	P182,343
Additions		15	151	-	-	111	277
Acquisition of subsidiary	38	208	-	-	-	-	208
Disposals		(3)	-	-	-	-	(3)
Remeasurement and others		(1,202)	(124)	-	-	-	(1,326)
Currency translation adjustments		(214)	(4)	-	-	-	(218)
December 31, 2019		12,169	1,086	167,387	24	615	181,281
Accumulated Depreciation and Amortization							
Adjustment due to adoption of PFRS 16	3	1,284	-	-	-	-	1,284
Depreciation and amortization	28	598	682	5,186	3	220	6,689
Disposals		(2)	-	-	-	-	(2)
Remeasurement and others		(428)	20	-	-	-	(408)
Currency translation adjustments		11	(7)	-	-	-	4
December 31, 2019		1,463	695	5,186	3	220	7,567
Accumulated Impairment Losses							
Adjustment due to adoption of PFRS 16	3	82	-	-	-	-	82
Acquisition of subsidiary	38	29	-	-	-	-	29
Currency translation adjustments		(1)	-	-	-	-	(1)
December 31, 2019		110	-	-	-	-	110
Carrying Amount							
December 31, 2019		P10,596	P391	P162,201	P21	P395	P173,604

The Group recognized right-of-use assets for leases of office space, warehouse, factory facilities and parcels of land. The leases typically run for a period of one to 50 years. Some leases contain an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Group.

The Group's right-of-use assets include land, power plant and equipment which were classified as finance leases under PAS 17 (Note 34).

The remeasurements pertain mainly to the change in the estimated dismantling costs of ARO during the year (Note 4).

The Group recognized interest expense related to these leases amounting to P8,734 in 2019 (Note 30).

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases, leases of low-value assets and variable lease payments that do not depend on an index or a rate amounted to P731, P3 and P2,727, respectively, in 2019.

The Group had total cash outflows for leases of P32,335 in 2019.

15. Investment Property

The movements in investment property are as follows:

	Note	Land, Land and Leasehold Improvements	Buildings and Improvements	Machinery and Equipment	Construction in Progress	Right-of-Use Asset	Total
Cost							
January 1, 2018		P6,498	P1,100	P422	P260	P -	P8,280
Additions		6,969	332	-	155	-	7,456
Reclassifications	13	11,717	15,369	15	(127)	-	26,974
Acquisition of subsidiary	38	90	-	-	-	-	90
Disposals		(3)	-	-	-	-	(3)
Currency translation adjustments		-	36	-	-	-	36
December 31, 2018 (Audited)		25,271	16,837	437	288	-	42,833
Adjustment due to adoption of PFRS 16	3	-	-	-	-	11,456	11,456
December 31, 2018 (as adjusted)		25,271	16,837	437	288	11,456	54,289
Additions		4,250	1,647	2	107	809	6,815
Reclassifications	13	6,187	704	-	(6)	-	6,885
Disposals/retirement		(61)	(105)	(1)	-	(3)	(170)
Currency translation adjustments		(277)	(237)	-	-	(20)	(534)
December 31, 2019		35,370	18,846	438	389	12,242	67,285
Accumulated Depreciation and Amortization							
January 1, 2018		29	659	422	-	-	1,110
Depreciation and amortization	28	60	664	1	-	-	725
Reclassifications		1,060	8,085	1	-	-	9,146
Currency translation adjustments		-	15	-	-	-	15
December 31, 2018 (Audited)		1,149	9,423	424	-	-	10,996
Adjustment due to adoption of PFRS 16	3	-	-	-	-	288	288
December 31, 2018 (as adjusted)		1,149	9,423	424	-	288	11,284
Depreciation and amortization	28	322	656	2	-	958	1,938
Reclassifications		2,760	(126)	-	-	-	2,634
Disposals/retirement		(23)	(47)	(1)	-	-	(71)
Currency translation adjustments		(71)	(209)	-	-	(7)	(287)
December 31, 2019		4,137	9,697	425	-	1,239	15,498
Accumulated Impairment Losses							
December 31, 2018 and 2019		8	-	-	-	-	8
Carrying Amount							
December 31, 2018		P24,114	P7,414	P13	P288	P -	P31,829
December 31, 2019		P31,225	P9,149	P13	P389	P11,003	P51,779

In 2019, property, plant and equipment was reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 13).

In 2018, the Group's investment property includes land, leasehold improvements, buildings and related improvements and facilities leased out for its service stations which were reclassified from property, plant and equipment to reflect the usage of the assets (Note 13).

No impairment loss was recognized in 2019, 2018 and 2017.

There are no other direct selling and administrative expenses other than depreciation and amortization and real property taxes arising from investment property that generated income in 2019, 2018 and 2017.

The fair value of investment property amounting to P63,878 and P49,093 as at December 31, 2019 and 2018, respectively, has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation techniques (Note 4).

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

Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches:

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

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

Income Approach. The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment ranges from 3% to 5%.

16. Biological Assets

Biological assets consist of:

	<i>Note</i>	2019	2018
Current:			
Growing stocks		P3,448	P3,572
Goods in process		703	673
		4,151	4,245
Noncurrent:			
Breeding stocks - net		2,808	2,844
	4	P6,959	P7,089

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P3,152, P2,801 and P2,161 in 2019, 2018 and 2017, respectively (Note 28).

Growing stocks pertain to growing broilers and hogs, while goods in process pertain to hatching eggs.

The movements in biological assets are as follows:

	<i>Note</i>	2019	2018
Cost			
Balance at beginning of year		P8,636	P7,549
Increase (decrease) due to:			
Production		50,954	47,501
Purchases		471	901
Mortality		(827)	(613)
Harvest		(47,344)	(43,947)
Retirement		(3,379)	(2,755)
Balance at end of year		8,511	8,636
Accumulated Amortization			
Balance at beginning of year		1,547	1,432
Amortization	28	3,152	2,801
Retirement		(3,147)	(2,686)
Balance at end of year		1,552	1,547
Carrying Amount		P6,959	P7,089

The Group harvested approximately 609.5 million and 582.5 million kilograms of grown broilers in 2019 and 2018, respectively, and 0.49 million and 0.40 million heads of marketable hogs and cattle in 2019 and 2018, respectively.

The aggregate fair value less estimated costs to sell of agricultural produce harvested during the year, determined at the point of harvest, amounted to P57,255 and P42,116 in 2019 and 2018, respectively.

17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

	2019	2018
Goodwill	P130,073	P130,852
Other intangible assets	149,014	146,608
	P279,087	P277,460

The movements in goodwill are as follows:

	Note	2019	2018
Balance at beginning of year		P130,852	P60,124
Additions	4, 5, 38	53	70,384
Deconsolidation of a subsidiary	5	(325)	-
Cumulative translation adjustments and others		(507)	344
Balance at end of year	4	P130,073	P130,852

The movements in other intangible assets with indefinite useful lives are as follows:

	Licenses	Trademarks and Brand Names	Total
Cost			
January 1, 2018	P2,012	P936	P2,948
Currency translation adjustments	123	26	149
December 31, 2018	2,135	962	3,097
Currency translation adjustments	76	(13)	63
December 31, 2019	2,211	949	3,160
Accumulated Impairment Losses			
January 1, 2018	-	231	231
Currency translation adjustments	-	23	23
December 31, 2018	-	254	254
Currency translation adjustments	-	(9)	(9)
December 31, 2019	-	245	245
Carrying Amount			
December 31, 2018	P2,135	P708	P2,843
December 31, 2019	P2,211	P704	P2,915

The movements in other intangible assets with finite useful lives are as follows:

		Concession Rights					Leasehold and Land Use Rights	Mineral Rights and Evaluation Assets	Computer Software and Licenses and Others	Total
	Note	Toll Road	Airport	Power	Port	Water				
Cost										
January 1, 2018		P131,899	P6,236	P894	P13,761	P2,938	P2,533	P1,734	P3,684	P163,679
Additions		10,145	504	140	98	3,581	51	-	650	15,169
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	89	89
Disposals and reclassifications		2,005	296	-	(21)	-	-	-	(5)	2,275
Currency translation adjustments		-	-	-	-	-	64	-	21	85
December 31, 2018 (Audited)		144,049	7,036	1,034	13,838	6,519	2,648	1,734	4,439	181,297
Adjustment due to adoption of PFRS 16	3	-	-	-	-	-	(1,916)	-	-	(1,916)
December 31, 2018 (as adjusted)		144,049	7,036	1,034	13,838	6,519	732	1,734	4,439	179,381
Additions		13,805	1,664	206	73	449	1	-	1,807	18,005
Acquisition of subsidiaries	38	-	-	-	-	-	8	25	2	35
Disposals and reclassifications		3,018	320	-	(13,911)	(81)	(730)	-	(908)	(12,292)
Currency translation adjustments		-	-	-	-	-	(11)	-	(27)	(38)
December 31, 2019		160,872	9,020	1,240	-	6,887	-	1,759	5,313	185,091
Accumulated Amortization										
January 1, 2018		26,396	372	112	1,716	-	891	-	2,471	31,958
Amortization	28	3,976	325	41	742	-	65	-	331	5,480
Acquisition of subsidiaries	38	-	-	-	-	-	-	-	9	9
Disposals and reclassifications		-	-	-	2	-	-	-	43	45
Currency translation adjustments		-	-	-	-	-	21	-	19	40
December 31, 2018 (Audited)		30,372	697	153	2,460	-	977	-	2,873	37,532
Adjustment due to adoption of PFRS 16	3	-	-	-	-	-	(802)	-	-	(802)
December 31, 2018 (as adjusted)		30,372	697	153	2,460	-	175	-	2,873	36,730
Amortization	28	3,986	342	78	233	206	22	-	181	5,048
Acquisition of subsidiaries	38	-	-	-	-	-	4	23	-	27
Disposals and reclassifications		-	-	-	(2,693)	-	(197)	-	103	(2,787)
Currency translation adjustments		-	-	-	-	-	(4)	-	(22)	(26)
December 31, 2019		34,358	1,039	231	-	206	-	23	3,135	38,992
Carrying Amount										
December 31, 2018		P113,677	P6,339	P881	P11,378	P6,519	P1,671	P1,734	P1,566	P143,765
December 31, 2019		P126,514	P7,981	P1,009	P-	P6,681	P -	P1,736	P2,178	P146,099

Goodwill, licenses and trademarks and brand names with indefinite lives acquired through business combinations, have been allocated to individual cash-generating units, for impairment testing as follows:

	2019		2018	
	Licenses, Trademarks and Brand Names		Licenses, Trademarks and Brand Names	
	Goodwill		Goodwill	
Energy	P69,944	P -	P69,944	P -
Fuel and oil	30,345	-	30,882	-
Infrastructure	21,950	-	21,950	-
Packaging	4,121	-	4,376	-
Food and Beverage	3,639	2,915	3,639	2,843
Others	74	-	61	-
Total	P130,073	P2,915	P130,852	P2,843

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 0.5% to 5% and 0.3% to 5% in 2019 and 2018, respectively, are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 13% in 2019 and 2018. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for goodwill in 2019, 2018 and 2017.

The recoverable amount of licenses, trademarks and brand names has been determined based on a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at its terminal value. The growth rates used which range from 2% to 4% in 2019 and 2018 are based on strategies developed for each business and include the Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 6% to 15.1% in 2019 and 2018. The recoverable amount of trademarks and brand names has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 4).

No impairment loss was recognized for licenses, trademarks and brand names in 2019, 2018 and 2017.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

- *Gross Margins.* Gross margins are based on average values achieved in the period immediately before the budget period. These are increases over the budget period for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.
- *Discount Rates.* The Group uses the weighted-average cost of capital as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.
- *Raw Material Price Inflation.* Consumer price forecast is obtained from indices during the budget period from which raw materials are purchased. Values assigned to key assumptions are consistent with external sources of information.

18. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2019	2018
Noncurrent receivables and deposits - net	4, 33, 34, 40, 41	P28,784	P21,158
Advances to contractors and suppliers		20,589	8,820
Deferred containers - net	4	20,125	17,607
Restricted cash	40, 41	6,167	4,967
Deposits on land for future development		3,619	2,134
Noncurrent prepaid input tax		3,157	3,894
Retirement assets	35	2,496	2,838
Deferred financing costs		1,986	-
Idle assets	4	1,279	1,157
Deferred exploration and development costs	4	711	705
Catalyst		683	437
Noncurrent prepaid rent		295	3,122
Derivative assets - noncurrent	3, 40, 41	241	371
Others		2,598	2,756
		P92,730	P69,966

The movements in the deferred containers are as follows:

	<i>Note</i>	2019	2018
Gross Carrying Amount			
Balance at beginning of year		P28,948	P23,629
Additions		5,672	6,422
Disposals/retirement/reclassifications		(2,265)	(1,104)
Currency translation adjustments		(23)	1
Balance at end of year		32,332	28,948
Accumulated Amortization			
Balance at beginning of year		10,762	10,055
Amortization	28	2,309	2,077
Disposals/retirement/reclassifications		(1,525)	(1,376)
Currency translation adjustments		(20)	6
Balance at end of year		11,526	10,762
Accumulated Impairment			
Balance at beginning of year		579	412
Additions	27, 32	682	568
Disposals/reclassifications		(580)	(401)
Balance at end of year		681	579
		P20,125	P17,607

Noncurrent receivables and deposits include amounts owed by related parties amounting to P4,005 and P2,858 as at December 31, 2019 and 2018, respectively (Note 33) and the costs related to the development of the MRT 7 Project amounting to P21,291 and P14,723 as at December 31, 2019 and 2018, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P724 and P493 as at December 31, 2019 and 2018, respectively.

Restricted cash represents:

- i. SCPC's Cash Flow Waterfall accounts (Trust Fund) with a local Trust Company, as required in its Omnibus Loan and Security Agreement (OLSA), amounting to P1,131 and P1,448 as at December 31, 2019 and 2018, respectively.
- ii. The amount received from Independent Electricity Market Operator of the Philippines (IEMOP), totaling P491 as at December 31, 2019 and 2018, representing the proceeds of sale to WESM of the electricity generated from the excess capacity of the Sual Power Plant for a specific period in 2016, which SMEC consigned with the Regional Trial Court of Pasig City (RTC Pasig);
- iii. APEC's reinvestment fund for sustainable capital expenditures and contributions collected from customers for bill deposits which are refundable amounting to P159 and P255 as at December 31, 2019 and 2018, respectively.
- iv. MPPCL's Cash Flow Waterfall accounts with a local Trust Company as required in its Omnibus Expansion Financing Agreement (OEFA) and Omnibus Refinancing Agreement (ORA), totaling to P3,773 and P2,249 as at December 31, 2019 and 2018, respectively;
- v. Cash in bank maintained by CCEC and TADHC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P629 and P5,745 as at December 31, 2019 and 2018, respectively, of which P16 and P5,221 as at December 31, 2019 and 2018, respectively are included as part of "Prepaid expenses and other current assets" account under "Restricted cash - current" (Note 10).

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 41.

In 2019, the Group entered into loan facilities, which were not yet drawn as at December 31, 2019. The loan facilitation fees and other filing and agency fees totaling to P1,986 are recognized as deferred financing costs as at December 31, 2019 (Note 21).

"Others" consist of marketing assistance to dealers and other noncurrent prepaid expenses.

19. Loans Payable

Loans payable consist of:

	<i>Note</i>	2019	2018
Parent Company			
Peso-denominated		P44,750	P24,800
Foreign currency-denominated		-	9,464
Subsidiaries			
Peso-denominated		120,239	122,650
Foreign currency-denominated		4,503	27,110
	38, 40, 41	P169,492	P184,024

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates for peso-denominated loans ranged from 3.70% to 8.50% and 2.50% to 7.75% in 2019 and 2018, respectively. Interest rates for foreign currency-denominated loans ranged from 2.30% to 9.10% and 2.85% to 9.90% in 2019 and 2018, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P11,798 and P8,568 as at December 31, 2019 and 2018, respectively (Note 33).

20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	Note	2019	2018
Trade	34	P100,382	P70,070
Non-trade		51,488	55,249
Customers' deposit	3	8,168	7,086
Accrued payroll		5,094	4,970
Accrued interest payable		4,067	4,042
Amounts owed to related parties	33	2,872	2,777
Derivative liabilities	40, 41	1,678	1,929
Retention payable		968	1,117
Deferred liability on consumer loyalty program		867	1,183
Current portion of IRO	4	187	212
Retirement liabilities	35	154	128
Deferred rent income		54	839
Others		58	162
	40, 41	P176,037	P149,764

Trade payables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

"Others" include accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 41.

21. Long-term Debt

Long-term debt consists of:

	2019	2018
Parent Company		
Peso-denominated bonds:		
Fixed interest rate of 4.8243% and 5.1923%, 6.2500%, 5.2840% and 5.5500%, 6.6250%, 5.7613%, and 7.125%, maturing in 2022, 2023, 2024, 2025, 2027 and 2028, respectively (a)	P59,500	P49,525
Peso-denominated term notes:		
Fixed interest rate of 6.9375% with maturities up to 2026 (b)	15,807	-
Fixed interest rate of 5.25% maturing in 2020 (c)	9,975	9,916
Foreign currency-denominated term notes:		
Fixed interest rate of 4.875% maturing in 2023 (d)	26,019	26,989
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2023 (e)	19,943	20,632
Floating interest rate based on LIBOR plus margin, with various maturities up to 2024 (f)	15,070	15,603
Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)	14,989	15,520
Floating interest rate based on LIBOR plus margin, maturing in 2023 (h)	14,972	15,502
Floating interest rate based on LIBOR plus margin, maturing in 2023 (i)	9,981	10,336
Floating interest rate based on LIBOR plus margin, maturing in 2024 (j)	2,364	-
Floating interest rate based on LIBOR plus margin (k)	-	5,258
Floating interest rate based on LIBOR plus margin (l)	-	5,252
	188,620	174,533
Subsidiaries		
Peso-denominated bonds:		
Fixed interest rate of 4.0032%, 4.5219%, 7.8183% and 8.0551% maturing in 2021, 2023, 2024 and 2025, respectively (m)	39,705	39,638
Fixed interest rate of 5.3750%, 6.7500%, 6.2500% and 6.6250% maturing in 2022, 2023, 2024 and 2027, respectively (n)	34,699	34,636
Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (o)	29,669	-
Fixed interest rate of 5.50% and 6.00% maturing in 2021 and 2024, respectively (p)	14,962	14,939

Forward

	2019	2018
Fixed interest rate of 4.3458%, 4.7575% and 5.1792% maturing in 2021, 2023 and 2026, respectively (q)	P14,914	P14,889
Fixed interest rate of 4.9925%, 5.5796% and 6.4872% maturing in 2020, 2022 and 2025, respectively (r)	7,265	7,242
Fixed interest rate of 5.93% and 6.60% maturing in 2019 and 2022, respectively (s)	6,979	16,967
Fixed interest rate of 10.50% (t)	-	2,809
Peso-denominated term notes:		
Fixed interest rate of 6.2836% to 7.3889% with maturities up to 2029 (u)	41,274	42,247
Fixed interest rate of 6.865% to 9.875% with maturities up to 2027 (v)	30,676	29,642
Fixed interest rate of 7.7521% and 6.5077% with maturities up to 2030 (w)	19,669	20,060
Fixed interest rate of 5.9970% with maturities up to 2029 (x)	16,720	-
Fixed interest rate of 6.9265% with maturities up to 2024 (y)	14,597	14,726
Fixed interest rate of 5.6276% with maturities up to 2029 (z)	11,910	-
Fixed interest rate of 5.5276% with maturities up to 2024 (aa)	10,136	12,259
Fixed interest rate of 4.63% maturing in 2024 (bb)	9,925	-
Fixed interest rate of 5.7584% with maturities up to 2022 (cc)	7,479	9,965
Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (dd)	5,779	6,465
Fixed interest rate of 8.4211% to 9.885% with maturities up to 2030 (ee)	4,143	4,159
Fixed interest rate of 5.4583% with maturities up to 2022 (ff)	2,995	3,991
Fixed interest rate of 6.6583% with maturities up to 2023 (gg)	1,810	2,264
Fixed interest rate of 5.00% with maturities up to 2021 (hh)	1,498	1,496
Fixed interest rate of 8.348% with maturities up to 2023 (ii)	877	993
Fixed interest rate of 8.6615% with maturities up to 2020 (jj)	391	2,307
Fixed interest rate of 6.52% and 6.7394% (kk)	-	11,245
Fixed interest rate of 6.50% (ll)	-	10,368
Fixed interest rate of 6.3212% and 7.1827% (mm)	-	2,696
Fixed interest rate of 5.65% (nn)	-	450

Forward

	<i>Note</i>	2019	2018
Floating interest rate based on Bloomberg Valuation (BVAL) plus margin, or <i>Bangko Sentral ng Pilipinas</i> (BSP) overnight rate plus margin, whichever is higher, with maturities up to 2029 (oo)		P9,925	P -
Floating interest rate based on BVAL plus margin, or BSP overnight rate plus margin, whichever is higher, with maturities up to 2023 (pp)		3,740	3,259
Floating interest rate based on BVAL plus margin, with maturities up to 2022 (qq)		2,356	2,721
Floating interest rate based on BVAL plus margin, with maturities up to 2026 (rr)		1,985	-
Floating interest rate based on BVAL plus margin, with maturities up to 2024 (ss)		547	-
Floating interest rate based on BVAL plus margin or BSP overnight rate plus margin, whichever is higher (tt)		-	625
Floating interest rate based on BVAL plus margin, or 5.75%, whichever is higher (uu)		-	166
Foreign currency-denominated Term Notes:			
Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (vv)		27,835	27,504
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (ww)		39,908	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2021 and 2023 (xx)		34,924	43,800
Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (yy)		32,854	49,451
Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (zz)		9,218	9,103
Floating interest rate based on Bank Bill Swap Rate (BBSY) plus margin, with maturities up to 2024 (aaa)		2,792	-
Floating interest rate based on Cost of Fund (COF) plus margin, with various maturities up to 2027 (bbb)		28	-
		494,184	443,082
	38, 40, 41	682,804	617,615
Less current maturities		43,808	55,697
		P638,996	P561,918

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

- The first tranche of the fixed rate bonds listed on March 1, 2017 amounting to P20,000 consists of: (i) five-year Series A Bonds, due in 2022 with an interest rate of 4.8243% per annum; (ii) seven-year Series B Bonds, due in 2024 with an interest rate of 5.2840% per annum; and, (iii) 10-year Series C Bonds, due in 2027 with an interest rate of 5.7613% per annum. Interest is payable every 1st of March, June, September and December of each year.
- The second tranche of the fixed rate bonds listed on April 7, 2017 amounting to P10,000 comprise of five-year Series D Bonds, due in 2022 with an interest rate of 5.1923% per annum. Interest is payable every 7th of January, April, July and October of each year.
- The third tranche of the fixed rate bonds listed on March 19, 2018 amounting to P20,000, consist of: (i) five-year Series E Bonds, due in 2023 with an interest rate of 6.2500% per annum; (ii) seven-year Series F Bonds, due in 2025 with an interest rate of 6.6250% per annum; and, (iii) 10-year Series G Bonds, due in 2028 with an interest rate of 7.1250% per annum. Interest is payable every 19th of March, June, September and December of each year.
- The fourth tranche of the fixed rate bonds listed on October 4, 2019 amounting to P10,000 comprise of five-year Series H Bonds, due in 2024 with an interest rate of 5.5500% per annum. Interest is payable every 4th of January, April, July and October of each year.

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

Unamortized debt issue costs amounted to P500 and P475 as at December 31, 2019 and 2018, respectively.

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

In 2019, the Parent Company made payments amounting to P80.

Unamortized debt issue costs amounted to P113 as at December 31, 2019.

- c. The amount represents P10,000 Fixed-Rate Notes (the “Fixed-Rate Notes”) due in 2020 issued by the Parent Company on May 25, 2018. The Fixed-Rate Notes were listed on the same date with the PDEX, with an interest rate of 5.25% per annum payable every 25th of February, May, August and November of each year.

Proceeds from the Fixed-Rate Notes were used to partially refinance various loans and partially invest in existing businesses of the subsidiaries of the Parent Company.

Unamortized debt issue costs amounted to P25 and P84 as at December 31, 2019 and 2018, respectively.

- d. The amount represents the drawdown of US\$800 Notes (the “Notes”) issued on April 19, 2013, from the US\$2,000 Medium Term Note (MTN) Programme of the Parent Company. The Notes were listed on the same date in the SGX-ST, with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing of US\$ denominated loans, working capital and general corporate purposes.

In 2015, the Parent Company purchased US\$284 out of US\$400 Notes offered for purchase in a tender offer.

Unamortized debt issue costs amounted to P128 and P162 as at December 31, 2019 and 2018, respectively.

- e. The amount represents the drawdown by the Parent Company on March 16, 2018 from its term loan facility amounting to US\$400. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were used to fund the subscription of Redeemable Perpetual Securities to partially finance the acquisition of Masinloc Group of Companies.

Unamortized debt issue costs amounted to P311 and P400 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P120 and P171 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P201 and P254 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P219 and P272 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P146 and P180 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P168 as at December 31, 2019.

- k. The amount represents the drawdown by the Parent Company on November 21, 2017 from its medium-term loan revolving facility agreement dated November 6, 2016, as amended, amounting to US\$100, subject to floating interest rate. The proceeds were used to partially repay existing indebtedness.

The Parent Company paid the loan on May 6, 2019.

- l. The amount represents the drawdown on various dates, of US\$580 medium-term loans from facility agreements entered into by the Parent Company on various dates in 2016 to partially refinance existing loans.

On various dates in 2018, the Parent Company paid US\$480 as partial settlement of the loan principal and fully paid the remaining balance of US\$100 on May 6, 2019.

Unamortized debt issue costs amounted to P6 as at December 31, 2018.

- m. The amount represents the first and second tranche of the P40,000 shelf registered fixed retail bonds (the "Bonds") issued by Petron amounting to P20,000 and P20,000, on October 27, 2016 and October 19, 2018, respectively. The Bonds were listed in the PDEX.
 - The first tranche of the fixed rate bonds listed on October 27, 2016 amounting to P20,000, consist of: (i) five-year Series A Bonds, due in 2021 with an interest rate of 4.0032% per annum; and, (ii) Series B Bonds, due in 2023 with an interest rate of 4.5219% per annum. Interest is payable every 27th of January, April, July and October of each year.
 - The second tranche of the fixed rate bonds listed on October 19, 2018 amounting to P20,000, consist of: (i) 5.5 year Series C Bonds, due in 2024 with an interest rate of 7.8183% per annum; and, (ii) seven-year Series D Bonds, due in 2025 with an interest rate of 8.0551% per annum. Interest is payable every 19th of January, April, July and October of each year.

The proceeds from the first tranche were used to partially settle the US\$475 and US\$550 Term Loan, to repay short-term loans and for general corporate requirements.

The proceeds from the second tranche were used for the payment of short-term loans, redeemed a portion of Petron's USCS (Note 5) and for general corporate purposes.

Unamortized debt issue costs amounted to P295 and P362 as at December 31, 2019 and 2018, respectively.

- n. The amount represents the first and second tranche of the P35,000 shelf registered fixed rate bonds (the "Bonds") issued by SMC Global amounting to P20,000 on December 22, 2017 and P15,000 on August 17, 2018, respectively. The Bonds were listed in the PDEX.

- The first tranche of the fixed rate bonds listed on December 22, 2017 amounting to P20,000, consists of: (i) five-year Series D Bonds, due in 2022 with an interest rate of 5.3750% per annum; (ii) seven-year Series E Bonds, due in 2024 with an interest rate of 6.2500% per annum; and, (iii) 10-year Series F Bonds, due in 2027 with an interest rate of 6.6250% per annum. Interest is payable every 22nd of March, June, September and December of each year.
- The second tranche of the fixed rate bonds listed on August 17, 2018 amounting to P15,000 pertains to the five-year Series G Bonds, due in 2023 with an interest rate of 6.7500% per annum. Interest is payable every 17th of February, May, August and November of each year.

Proceeds from the first tranche were used to refinance peso-denominated short-term loans.

Proceeds from the second tranche were used to refinance the outstanding shareholder advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P301 and P364 as at December 31, 2019 and 2018, respectively.

- o. The amount represents the first tranche of the P60,000 shelf registered fixed rate bonds (the "Bonds") issued by SMC Global amounting to P30,000 on April 24, 2019. The Bonds were listed in the PDEX on the same date.

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

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

Unamortized debt issue costs amounted to P331 as at December 31, 2019.

- p. The amount represents P15,000 fixed rate bonds (the "Bonds") issued by SMB on April 2, 2014, divided into: (i) Series G Bonds, due in 2021 with an interest rate of 5.50% per annum; and, (ii) Series H Bonds, due in 2024 with an interest rate of 6.00% per annum. Interest is payable every 2nd of April and October of each year.

Proceeds from the Series G and Series H issuance were used to partially refinance the redemption of Series B Bonds.

The Bonds were listed in the PDEX on April 2, 2014.

Unamortized debt issue costs amounted to P39 and P61 as at December 31, 2019 and 2018, respectively.

- q. The amount represents P15,000 fixed rate bonds (the “Bonds”) issued by SMC Global on July 11, 2016, divided into: (i) Series A Bonds, due in 2021 with an interest rate of 4.3458% per annum; (ii) Series B Bonds, due in 2023 with an interest rate of 4.7575% per annum; and, (iii) Series C Bonds, due in 2026 with an interest rate of 5.1792% per annum. Interest is payable every 11th of January, April, July and October of each year.

Proceeds from the issuance were used to refinance the US\$300 short-term loan that matured on July 25, 2016, which were used for the redemption of the US\$300 bond in January 2016.

The Bonds were listed in the PDEX on July 11, 2016.

Unamortized debt issue costs amounted to P86 and P111 as at December 31, 2019 and 2018, respectively.

- r. The amount represents P7,300 fixed rate bonds (the “Bonds”) issued by SLTC on May 22, 2015, divided into: (i) Series A Bonds, due in 2020 with an interest rate of 4.9925% per annum; (ii) Series B Bonds, due in 2022 with an interest rate of 5.5796% per annum; and, (iii) Series C Bonds, due in 2025 with an interest rate of 6.4872% per annum. Interest is payable every 22nd of February, May, August and November of each year.

The proceeds from the issuance were used to prepay peso-denominated Corporate Notes drawn in 2012.

The Bonds were listed in the PDEX on May 22, 2015.

Unamortized debt issue costs amounted to P35 and P58 as at December 31, 2019 and 2018, respectively.

- s. The amount represents P17,000 fixed rate bonds (the “Bonds”) issued by SMB on April 2, 2012, divided into: (i) seven-year Series E Bonds, due in 2019 with an interest rate of 5.93% per annum; and, (ii) ten-year Series F Bonds, due in 2022 with an interest rate of 6.60% per annum. The Series E and F Bonds were part of the P20,000 fixed rate bonds of SMB. Interest is payable every 2nd of April and October of each year.

The proceeds from the issuance were used to refinance existing financial indebtedness and for general working capital purposes.

The Bonds were listed in the PDEX on April 2, 2012.

The Series E Bonds with an aggregate principal of P10,000 matured and redeemed by SMB on April 12, 2019.

Unamortized debt issue costs amounted to P20 and P33 as at December 31, 2019 and 2018, respectively.

- t. The amount represents P2,810 Series C fixed rate bonds (the “Bonds”) issued by SMB on April 3, 2009 with an interest rate of 10.50% per annum. The Series C Bonds was part of the P38,800 fixed rate bonds of SMB. Interest is payable every 3rd of April and October of each year.

The proceeds from the issuance were used to finance acquisition of the interest of the Parent Company in IBI and BPI.

The Bonds were listed on the PDEX on November 17, 2009.

The Series C Bonds with an aggregate principal of P2,810 matured and redeemed by SMB on April 3, 2019.

Unamortized debt issue costs amounted to P1 as at December 31, 2018.

- u. The amount represents the drawdown by SCPC on June 28, 2017 of the Tranche A and Tranche B amounting to P42,000 and the remaining balance of Tranche B amounting to P2,000 on January 31, 2018, from its P44,000 OLSA dated June 22, 2017 with various banks.

Proceeds from the loan were used for the settlement of the US\$360 short-term loan, acquisition of the 2x150 MW Limay Coal-fired Power Plant in Limay, Bataan from LPPC, also a wholly-owned subsidiary of SMC Global, repayment of shareholder advances and financing of transaction costs relating to the OLSA. The loan is payable in 46 unequal quarterly installments commencing on the 9th month from initial advance for Tranche A, 36 unequal quarterly installments commencing on the 39th month from initial advance for Tranche B. Final repayment date is 12 years from initial advance.

The loan is subject to repricing on the seventh year from the date of initial advance.

Partial payments made amounted to P2,100 and P1,050 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P626 and P703 as at December 31, 2019 and 2018, respectively.

- v. The amount represents the P31,000 and P30,000 loan drawn by CCEC as at December 31, 2019 and 2018, respectively, from its P31,000 OLSA dated December 15, 2014 with various banks.

Proceeds of the loan were used to partially finance the design, construction and the operation and maintenance of the Skyway Stage 3 Project. The loan is payable in 35 unequal consecutive quarterly installments commencing on the period ending the earlier of 55 months from initial drawdown date or 3 months after the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 12 years after initial drawdown date.

The loan is subject to repricing on the seventh year from date of initial drawdown.

The drawdown includes payable to BOC amounting to P3,700 and P3,581 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P324 and P358 as at December 31, 2019 and 2018, respectively.

- w. The amount represents the remaining balance of the P20,322 and P978 drawn by SMCPD in tranches on August 17, 2018 and July 31, 2019, respectively, from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

The proceeds were used by SMCPD for the repayment of short-term loan used to fund the design, construction and operation of the Malita, Davao Power Plant and payment of transaction-related fees and expenses.

Payments made amounted to P1,296 as at December 31, 2019.

The drawdown includes payable to BOC amounting to P3,005 and P3,053 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P335 and P262 as at December 31, 2019 and 2018, respectively.

- x. The amount represents the drawdown by AAIPC on December 16, 2019 amounting to P17,300 from its P41,200 Corporate Notes Facility Agreement dated December 9, 2019 with various local banks.

Proceeds of the loan were mainly used to refinance existing debt obligations, invest and/or advance for infrastructure and general corporate requirements and finance transaction related fees, taxes and expenses. The loan is payable in 39 quarterly installments commencing on the 3rd month from initial issue date. Final repayment date is 10 years from initial issue date.

The Notes are subject to repricing on the fifth year from initial issue date.

Unamortized debt issue costs amounted to P580 as at December 31, 2019.

- y. The amount represents the drawdown by SMC Global on April 26, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9265% per annum, payable quarterly. The proceeds were used for the payment of the remaining US\$300 out of the US\$700 five-year term loan drawn in 2013.

Payments made amounted to P300 and P150 pursuant to the loan agreement as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P103 and P124 as at December 31, 2019 and 2018, respectively.

- z. The amount represents the drawdown by PIDC on December 19, 2019 amounting to P12,000 from its P42,000 Second Amendment to the OLSA dated December 16, 2019 with various local banks.

Proceeds of the loan were used for consolidation of project loans, releveraging the project, repayment of certain shareholder advance and partial financing of operation and maintenance of the project. The loan is payable in 39 quarterly installments commencing on the 3rd month from initial drawdown. Final repayment date is 11 years and 9 months from initial drawdown.

The loan is subject to repricing on the fifth year from date of initial drawdown.

Unamortized debt issue costs amounted to P90 as at December 31, 2019.

- aa. The amount represents the drawdown by Petron on July 25, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 5.5276% per annum payable quarterly. The proceeds were used to refinance the short-term loan availed on December 23, 2016 for the acquisition of the Refinery Solid Fuel-fired Power Plant.

Payments made amounted to P4,821 and P2,679 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P43 and P62 as at December 31, 2019 and 2018, respectively.

- bb. The amount represents the drawdown by SMB on December 26, 2019 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 4.63% payable quarterly. The proceeds were used for general corporate purposes.

Unamortized debt issue costs amounted to P75 as at December 31, 2019.

- cc. The amount represents the drawdown by Petron on December 29, 2017 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance permanent working capital requirements.

Payments made amounted to P2,500 as at December 31, 2019.

Unamortized debt issue costs amounted to P21 and P35 as at December 31, 2019 and 2018, respectively.

- dd. The amount represents the remaining balance of the P1,100 and P6,400 loans drawn by Vertex in 2016 and 2015, respectively, from its P7,500 OLSA dated July 8, 2014. Proceeds of the loan were used to finance the construction of the NAIA Expressway. The loan is payable in 32 unequal consecutive quarterly installments commencing on the period ending the earlier of 24 months from initial drawdown date or the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 10 years after initial drawdown date.

The drawdown includes payable to BOC amounting to P1,552 and P1,738 as at December 31, 2019 and 2018, respectively (Note 33).

Payments made amounted to P1,681 and P982 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P40 and P53 as at December 31, 2019 and 2018, respectively.

- ee. The amount represents the drawdown of the first tranche by LCWDC in 2018 amounting to P4,200 from its P5,400 OLSA dated September 16, 2016 with various local banks.

Proceeds of the loan were used for the Bulacan Bulk Water Supply Project.

The loan is subject to repricing on the seventh year from the initial drawdown date.

Payments made amounted to P21 as at December 31, 2019.

Unamortized debt issue costs amounted to P36 and P41 as at December 31, 2019 and 2018, respectively.

- ff. The amount represents the drawdown by Petron on October 13, 2015 amounting to P5,000 from its term loan facility. The loan is amortized over seven years with a two-year grace period and is subject to a fixed interest rate of 5.4583% per annum payable quarterly. The proceeds were used to repay maturing obligations and for general corporate requirements.

Payments made amounted to P2,000 and P1,000 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P5 and P9 as at December 31, 2019 and 2018 respectively.

- gg. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly installments on each repayment date in accordance with the agreement beginning on the earlier of the 27th month from initial drawdown date or the third month from the date of receipt by SIDC of the financial completion certificate for the Project.

Payments made amounted to P1,682 and P1,223 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P8 and P13 as at December 31, 2019 and 2018, respectively.

- hh. The amount represents drawdown by SMCSLC in 2011 amounting to P1,500, from a local bank, which was used for working capital requirements. The said loan was rolled-over for five years in July 2016.

Unamortized debt issue costs amounted to P2 and P4 as at December 31, 2019 and 2018, respectively.

- ii. The amount represents drawdown by GSMI on September 24, 2018 from its five-year credit facility with a local bank dated August 13, 2018 amounting to P1,000. The loan is carried at amortized cost and payable in equal quarterly installments commencing in September 2019. The proceeds were used to refinance existing short-term obligations.

Payments made amounted to P118 as at December 31, 2019.

Unamortized debt issue costs amounted to P5 and P7 as at December 31, 2019 and 2018, respectively.

- jj. The amount represents the remaining balance of the P11,500 Corporate Notes Facility with various banks, drawn by MTDME in 2012. Proceeds of the loan were used to refinance the Holding Company Facility Agreement entered into by AAIBV amounting to US\$250 in which MTDME was a replacement borrower. The loan is payable semi-annually until 2022.

Payments made amounted to P11,108 and P9,177 as at December 31, 2019 and 2018, respectively.

The drawdown includes payable to BOC amounting to P59 and P353 as at December 31, 2019 and 2018, respectively (Note 33).

Unamortized debt issue costs amounted to P1 and P16 as at December 31, 2019 and 2018, respectively.

- kk. The amount represents the balance amounting to P11,404 as at December 31, 2018 of the P14,500 and P16,700 Corporate Notes Facility Agreement entered into by AAIPC in 2013 and 2016, respectively.

Proceeds of the loan were used to finance the acquisition of the shares of stock of CMMTC and S3HC.

The drawdown includes payable to BOC amounting to P441 as at December 31, 2018 (Note 33).

AAIPC fully paid the loan as at December 31, 2019.

Unamortized debt issue costs amounted to P159 as at December 31, 2018.

- II. The amount represents series of drawdowns of PIDC from the P15,140 OLSA dated June 2, 2011, as amended, to finance the design, construction, operation, maintenance and implementation of the widening of Phase 1 and Phase 2 of TPLEX. The loan is payable in 24 unequal quarterly installments commencing on the 51st month from the initial borrowing dates, inclusive of not more than four-year grace period. Final repayment date is 10 years after initial borrowing.

The loan is subject to repricing on the fifth year from the date of initial drawdown.

The loan was paid in full as at December 31, 2019. Payments made amounted to P4,731 as at December 31, 2018.

Unamortized debt issue costs amounted to P41 as at December 31, 2018.

- mm. The amount represents Series B Fixed Rate Corporate Notes (FXCN) issued by Petron in 2011 amounting to P2,910 with maturity of up to 10 years from the issue date and with fixed interest coupons of 7.1827% per annum. The net proceeds from the issuance were used for general corporate requirements.

The loan was paid in full as at December 31, 2019. Payments made amounted to P204 as at December 31, 2018 (Note 33).

Unamortized debt issue costs amounted to P10 as at December 31, 2018.

- nn. The amount represents the balance of the P3,000 loan facility of MNHPI with local banks, which was fully drawn in 2013. The loan is payable within seven years in equal quarterly installments up to 2019. Proceeds of the loan were used to finance the modernization, development and maintenance of MNHPI.

Payments made amounted to P2,550 as at December 31, 2018.

The drawdown includes payable to BOC amounting to P173 as at December 31, 2018 (Note 33).

On April 26, 2019, the balance of the loan was deconsolidated following the increase in shareholdings of non-controlling interest of MNHPI (Note 5).

- oo. The amount represents drawdown by SMFI from its P18,000 10-year term loan facility amounting P10,000 on December 12, 2019. The loan is amortized for 10 years and is subject to a floating interest rate based on BVAL plus margin or BSP Term Deposit Auction Facility overnight rate plus margin, whichever is higher with a one-time option to convert to a fixed interest rate within two years. The proceeds were used to refinance its existing short-term obligations, fund capital expansion projects and for other general corporate requirements.

Unamortized debt issue costs amounted to P75 as at December 31, 2019.

pp. The amount represents the P4,000 and P3,300 drawdown by SMYAC from its P4,000 term loan facility as at December 31, 2019 and 2018, respectively. The term of the loan is for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements.

Payments made amounted to P240 and P18 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P20 and P23 as at December 31, 2019 and 2018, respectively.

qq. The amount represents series of drawdowns in 2014 and 2013, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter. TADHC paid P940 and P573 as at December 31, 2019 and 2018, respectively, as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P4 and P6 as at December 31, 2019 and 2018, respectively.

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

Unamortized debt issue costs amounted to P15 as at December 31, 2019.

ss. The amount represents drawdown by SMYAC amounting to P551 from its P2,000 term loan. The loan is amortized five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and general funding requirements.

Unamortized debt issue costs amounted to P4 as at December 31, 2019.

tt. The amount represents drawdown from the loan agreement entered into by SMYPC with BOC in October 2012 amounting to P3,500 and maturing on October 11, 2019. The proceeds of the loan were used for general financing and corporate requirements.

As at December 31, 2018, SMYPC paid P2,875 as partial settlement of the loan principal and fully paid the remaining balance of P625 on July 11, 2019 (Note 33).

uu. The amount represents the seven-year bank loan obtained by CAI from BOC in April 2014 amounting to P350. The loan was obtained for capital expenditure purposes.

As at December 31, 2018, CAI paid P184 as partial settlement of the loan principal and fully paid the remaining balance of P166 on February 28, 2019 (Note 33).

- vv. The amount represents the total outstanding loan drawn in various tranches by MPPCL from its ORA dated December 28, 2012, with various local banks. The proceeds of the loan were used to refinance its debt obligations previously obtained to partially finance the acquisition, operation, maintenance and repair of the power plant facilities purchased from PSALM by MPPCL. The loan is divided into fixed interest tranche amounting to US\$209 and US\$225 as at December 31, 2019 and 2018, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$70 and US\$75 as at December 31, 2019 and 2018, respectively. The loan will mature on January 23, 2023.

Unamortized debt issue costs amounted to P15 and P27 as at December 31, 2019 and 2018, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P5 and P9 as at December 31, 2019 and 2018, respectively, for the floating interest tranche.

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

Unamortized debt issue costs amounted to P600 as at December 31, 2019.

- xx. The amount represents the drawdown by SMC Global on March 15, 2018 and March 16, 2018 from its US\$500 term facility and US\$700 term loan facility, respectively.

The US\$700 term loan facility is divided into Facility A Loan amounting to US\$200 maturing on March 12, 2021 and Facility B Loan amounting to US\$500 maturing on March 13, 2023.

The proceeds were used to partially finance the acquisition of the Masinloc Group.

SMC Global partially paid US\$350 in 2018 and fully paid the remaining balance of US\$150 in 2019 out of US\$500 term facility.

Unamortized debt issue costs amounted to P521 and P893 as at December 31, 2019 and 2018, respectively.

- yy. The amount represents the drawdown of US\$600 and US\$400 by Petron on June 28, 2017 and October 10, 2017, respectively, from its US\$1,000 term loan facility, which was signed and executed on June 16, 2017. The loan is subject to a floating interest rate plus spread and is amortized over five years with a two-year grace period. The proceeds were used to fully pay the outstanding loan balances.

Payments made amounted to US\$345 and US\$50 as at December 31, 2019 and 2018, respectively.

Unamortized debt issue costs amounted to P276 and P500 as at December 31, 2019 and 2018, respectively.

zz. The amount represents total outstanding loan drawn in various tranches by MPPCL from its OEFA dated December 1, 2015, with various local banks, to finance the construction of the additional 335 MW coal-fired plant within MPPCL existing facilities. The loan is divided into fixed interest tranche amounting to US\$333 and US\$306 as at December 31, 2019 and 2018, respectively, and floating interest tranche based on LIBOR plus margin amounting to US\$109 and US\$101 as at December 31, 2019 and 2018, respectively. The loan will mature on December 16, 2030.

Unamortized debt issue costs amounted to P339 and P376 as at December 31, 2019 and 2018, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P96 and P123 as at December 31, 2019 and 2018, respectively, for the floating interest tranche.

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

Unamortized debt issue costs amounted to P43 as at December 31, 2019.

bbb. The amount represents total outstanding loans drawn in various tranches by INSA Alliance Sdn. Bhd., a subsidiary of SMYPIL, in 2015 to 2017 with various local banks, to finance working capital requirements. The loans are divided into fixed interest tranche and floating interest tranche based on COF plus margin. The loans under fixed interest tranche were prepaid on March 11, 2019. The loans under floating interest tranche have various maturities with the earliest one maturing on July 31, 2021 and the last one maturing on October 31, 2027.

The gross amount of long-term debt payable to BOC amounted to P10,676 and P12,857 as at December 31, 2019 and 2018, respectively (Note 33).

On July 11, 2019, the BOD of the Parent Company approved the conduct of a consent solicitation process for the holders of the US\$800 4.875% Notes due in 2023, of which US\$516 are currently outstanding, and to the holders of record as at November 14, 2019 of the following debt securities namely: (i) 4.8243% Series A Bonds due in 2022, 5.2840% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.2500% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.1250% Series G Bonds due in 2028; and (iv) 5.2500% Fixed Rate Notes due in 2020, to the amendments to certain terms and conditions in the respective trust agreements.

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

The Parent Company obtained the consents in connection with the consent solicitation for its Corporate Notes and Fixed Rate Corporate Bonds held from November 5 to December 18, 2019.

The supplemental trust agreements amending the trust agreements covering the Series A, B, C bonds, Series D bonds, Series E, F, G bonds and the two-year FXCN were executed by the Parent Company and the respective trustees of the said bonds on December 26, 2019.

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

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

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

The Group is in compliance with the covenants of the debt agreements or obtained the necessary waivers as at December 31, 2019 and 2018.

The movements in debt issue costs are as follows:

	Note	2019	2018
Balance at beginning of year		P6,848	P3,977
Additions		2,577	3,705
Amortization	30	(1,968)	(1,386)
Reclassification, capitalized and others		(112)	552
Balance at end of year		P7,345	P6,848

Repayment Schedule

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

Year	Gross Amount	Debt Issue Costs	Net
2020	P44,410	P602	P43,808
2021	88,049	1,046	87,003
2022	96,471	875	95,596
2023	188,052	2,134	185,918
2024 and thereafter	273,167	2,688	270,479
Total	P690,149	P7,345	P682,804

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 40.

Establishment of a MTN Programme

On December 5, 2019, the BOD approved the establishment of a MTN programme amounting to US\$3,000 (the "Programme"), and the issuance of US\$500 perpetual securities out of the Programme. The Programme and the initial issuance of perpetual securities will be both registered at the SGX-ST.

The Programme will be available for a medium term and will allow the Parent Company to tap the financial market for funding through the issuance of securities, including but not limited to corporate notes, bonds, and perpetual securities and other similar instruments at different currencies (other than Philippine pesos). The establishment of the Programme will give the Parent Company ready access to funding and will give the Parent Company the flexibility to fund its contemplated investments and projects such as the MRT-7 construction, the New Manila International Airport Project, as well as the refinancing of its existing obligations and for other general corporate purposes. All instruments and securities that will be issued out of the Programme shall be exempt securities and shall not be required to be registered with the PSE.

22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

	<i>Note</i>	2019	2018
Amounts owed to related parties	33	P7,533	P7,873
Retirement liabilities - noncurrent	35	6,485	5,342
ARO	4	2,217	3,879
Derivative liabilities - noncurrent	4, 40, 41	1,444	566
Cash bonds		750	434
IRO	4	640	888
Cylinder deposits		608	573
Concession liabilities		94	98
Obligation to ROP - service concession agreement	4, 34	76	2,449
Redeemable preferred shares	4	19	18
Others		2,326	2,264
	40, 41	P22,192	P24,384

Redeemable Preferred Shares. These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year BVAL). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares will be mandatorily redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

“Others” include amounts owed to a supplier for the purchase of equipment.

23. Income Taxes

The components of income tax expense are shown below:

	2019	2018	2017
Current	P22,691	P22,733	P20,510
Deferred	5,822	1,735	5,859
	P28,513	P24,468	P26,369

The movements of deferred tax assets and liabilities are accounted for as follows:

2019	Balance at January 1	Adjustment Due to Adoption of PFRS 16	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,748	P -	(P196)	P -	P63	P4,615
MCIT	115	-	761	-	-	876
NOLCO	2,102	-	(352)	-	-	1,750
Undistributed net earnings of foreign subsidiaries	(1,129)	-	102	40	(53)	(1,040)
Leases	(7,747)	1,194	(4,707)	-	27	(11,233)
Unrealized intercompany charges and others	(1,739)	-	(1,430)	1,116	(128)	(2,181)
	(P3,650)	P1,194	(P5,822)	P1,156	(P91)	(P7,213)

2018	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Balance at December 31
Allowance for impairment losses on trade and other receivables and inventory	P4,779	P41	P -	(P72)	P4,748
MCIT	118	(3)	-	-	115
NOLCO	2,013	89	-	-	2,102
Undistributed net earnings of foreign subsidiaries	(1,025)	(5)	(67)	(32)	(1,129)
Leases	(5,343)	(2,440)	-	36	(7,747)
Unrealized intercompany charges and others	(2,804)	583	315	167	(1,739)
	(P2,262)	(P1,735)	P248	P99	(P3,650)

The above amounts are reported in the consolidated statements of financial position as follows:

	Note	2019	2018
Deferred tax assets	4	P18,052	P19,249
Deferred tax liabilities		(25,265)	(22,899)
		(P7,213)	(P3,650)

As at December 31, 2019, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
2017	December 31, 2020	P17	P14
2018	December 31, 2021	143	68
2019	December 31, 2022	5,673	794
		P5,833	P876

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

	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%
Increase (decrease) in income tax rate resulting from:			
Interest income subject to final tax	(4.15%)	(2.95%)	(1.67%)
Equity in net loss (earnings) of associates and joint ventures	(0.04%)	0.12%	(0.11%)
Loss (gain) on sale of investments subject to final or capital gains tax	0.09%	(0.10%)	(0.32%)
Others, mainly income subject to different tax rates - net	11.09%	6.39%	4.58%
Effective income tax rate	36.99%	33.46%	32.48%

24. Equity

a. Amendments to the Articles of Incorporation

On July 23, 2009, during the annual stockholders' meeting of the Parent Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Parent Company. The authorized capital stock of the Parent Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Parent Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Parent Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Parent Company, to increase the authorized capital stock of the Parent Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Parent Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Parent Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares, consisting of 691,099,686 Series "1" preferred treasury shares to Series "2" preferred treasury shares and 118,900,314 Series "1" preferred unissued shares to Series "2" preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Parent Company was 300,000,000 for Series "1" preferred shares and 1,910,000,000 for Series "2" preferred shares. The stockholders also approved the issuance of the Series "2" preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Parent Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares was approved by the SEC on July 14, 2015.

b. Capital Stock

Common Shares

On July 27, 2010, the BOD of the Parent Company approved the offer to issue approximately 1,000,000,000 common shares (from unissued capital stock and treasury shares) at a price of not less than P75.00 per share.

Effective August 26, 2010, all Class "A" common shares and Class "B" common shares of the Parent Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both are available to foreign investors, subject to the foreign ownership limit.

The Parent Company has a total of 34,164 and 34,768 common stockholders as at December 31, 2019 and 2018, respectively.

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

	<i>Note</i>	2019	2018	2017
Issued and outstanding shares at beginning of year		3,288,649,125	3,287,018,252	3,284,960,787
Issuances during the year	39	-	1,630,873	2,057,465
Issued shares at end of year		3,288,649,125	3,288,649,125	3,287,018,252
Less treasury shares		904,752,537	904,752,537	904,752,537
Issued and outstanding shares at end of year		2,383,896,588	2,383,896,588	2,382,265,715

Preferred Shares

i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the Parent Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series “1” preferred shares are non-voting except as provided for under the Corporation Code. The Series “1” preferred shares are redeemable in whole or in part, at the sole option of the Parent Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Parent Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On July 23, 2009, the stockholders of the Parent Company approved the Offer by the Parent Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Parent Company with Series “1” preferred shares. The exchange ratio was one common share for one Series “1” preferred share and the qualified shareholders of record as at July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Parent Company completed the exchange of 476,296,752 Class “A” common shares and 396,876,601 Class “B” common shares for Series “1” preferred shares.

On October 15, 2009, the BOD of the Parent Company approved the issuance, through private placement, of up to 226,800,000 Series “1” preferred shares.

On December 22, 2009, the Parent Company issued 97,333,000 Series “1” preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series “1” preferred share.

On December 8, 2010 and October 3, 2011, the Parent Company listed 873,173,353 and 97,333,000 Series “1” preferred shares worth P65,488 and P7,300, respectively.

On August 13, 2012, the BOD of the Parent Company approved the redemption of Series “1” preferred shares at a redemption price of P75.00 per share.

On October 5, 2012, 970,506,353 Series “1” preferred shares were reverted to treasury.

On April 14, 2015, the Parent Company reissued 279,406,667 Series “1” preferred shares held in treasury in the name of certain subscribers at P75.00 per share. The Series “1” preferred shares became tradable at the PSE beginning June 10, 2015.

The Parent Company has 279,406,667 outstanding Series “1” preferred shares held by three stockholders as at December 31, 2019 and 2018.

ii. Series “2” Preferred Shares

Subseries 2-A, 2-B and 2-C

In September 2012, the Parent Company issued 1,067,000,000 Series “2” preferred shares at the issue price of P75.00 per share. The said Series “2” preferred shares worth P80,025 were listed at the PSE on September 28, 2012. The SEC approved the registration and issued a permit to sell on August 10, 2012.

The Series “2” preferred shares were issued in three subseries (Subseries “2-A”, Subseries “2-B” and Subseries “2-C”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting.

The Parent Company has the redemption option starting on the third, fifth and seventh year and every dividend payment thereafter, with a “step-up” rate effective on the 5th, 7th and 10th year, respectively, if the shares are not redeemed. Dividend rates are 7.500%, 7.625%, and 8.000% per annum for Subseries “2-A”, “2-B” and “2-C”, respectively.

On September 21, 2015, the Parent Company redeemed its 721,012,400 Series “2” preferred shares - Subseries “2-A” at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P54,076 to the holders of Subseries “2-A” preferred shares.

On September 23, 2019, the Parent Company redeemed its 90,428,200 Series “2” preferred shares - Subseries “2-B” at a redemption price of P75.00 per share. The Parent Company paid P6,782 to the holders of Subseries “2-B” preferred shares.

Subseries 2-D, 2-E and 2-F

On September 21, 2015, the Parent Company issued and listed in the PSE 446,667,000 Series “2” preferred shares held in treasury in three subseries (Subseries “2-D”, Subseries “2-E” and Subseries “2-F”) and are peso-denominated, perpetual, cumulative, non-participating and non-voting. Dividend rates are 5.9431%, 6.3255% and 6.8072% per annum for Subseries “2-D”, “2-E” and “2-F”, respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

A portion of the amount used to pay to redeem the holders of the Subseries “2-A” preferred shares came from the entire proceeds from the issuance of the 446,667,000 Series “2-D”, “2-E” and “2-F” preferred shares amounting to P33,500.

Subseries 2-G, 2-H and 2-I

On February 24, 2016, the BOD of PSE approved the listing application of the Parent Company of up to 975,571,800 shares of Series “2” preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 400,000,000 shares of Series “2” preferred shares (the First Tranche) with a par value of P5.00 per share and an offer price of P75.00 per share. The SEC approved the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

The Parent Company offered the “First Tranche” of up to: (i) 280,000,000 shares of Series “2” preferred shares consisting of Subseries “2-G”, “2-H” and “2-I” and (ii) 120,000,000 shares of Series “2” preferred shares to cover the oversubscription option. The First Tranche was re-issued and offered from the Series “2” preferred shares Subseries held in treasury. The First Tranche was issued on March 30, 2016 which was also the listing date of the Shelf Registered Shares.

Dividend rates are 6.5793%, 6.3222% and 6.3355% per annum for Subseries “2-G”, “2-H” and “2-I”, respectively.

Following the completion of the Parent Company’s follow-on offering of 280,000,000 Series “2” preferred shares, with an oversubscription option of 120,000,000 Series “2” preferred shares, the Parent Company re-issued the Series “2” preferred shares held in treasury, as follows: (i) 244,432,686 Series “2” preferred shares; and (ii) 155,567,314 Subseries “2-A” preferred shares (collectively, the “Offer Shares”). The Series “2” preferred shares were Series “1” preferred shares held in treasury that were reclassified to Series “2” preferred shares on June 9, 2015.

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

After reissuance of the Offer Shares on March 30, 2016 and redemption on September 21, 2019, the Parent Company has remaining 565,445,086 Subseries “2-A” and 90,428,200 Subseries “2-B” preferred shares held in treasury.

The Parent Company has 1,102,226,400 and 1,192,654,600 outstanding Series “2” preferred shares as at December 31, 2019 and 2018 and has a total of 1,043 and 1,128 preferred stockholders as at December 31, 2019 and 2018, respectively.

c. Treasury Shares

Treasury shares consist of:

	2019	2018	2017
Common	P67,093	P67,093	P67,093
Preferred	49,190	42,408	42,408
	P116,283	P109,501	P109,501

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as at December 31, 2019, 2018 and 2017.

1. A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the common shares of the Parent Company under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has "legal and equitable grounds to challenge the enforcement" of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company's intervention, the Sandiganbayan's disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company's right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation.

The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series "1" preferred shares, and the offer to exchange common shares to Series "1" preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series "1" preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series "1" preferred shares of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series "1" preferred shares are remitted to the escrow account established with UCPB.

On October 5, 2012, the Parent Company redeemed all Series “1” preferred shares including those Series “1” preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series “1” preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As at October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court’s Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated November 20, 2012,” dated December 17, 2012, alleging that: (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that “no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court’s directive”.

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the: (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the: (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the "Manifestation and Omnibus Motion" filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the ROP to file the appropriate action or proceeding to determine the legal right of the Parent Company to the 25,450,000 treasury shares of the Parent Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

2. In 2009, 873,173,353 common shares reverted to treasury were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.
3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 SMC common shares held by Top Frontier, priced at P110.00 per share.

4. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Parent Company.

In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as at December 31, 2014.

5. As at December 31, 2019 and 2018, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 39).

d. Unappropriated Retained Earnings

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2019, 2018 and 2017, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

e. Appropriated Retained Earnings

The BOD of certain subsidiaries approved additional appropriations amounting to P13,109, P15,164 and P22,218 in 2019, 2018 and 2017, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P29,436, P7,926 and P12,234 in 2019, 2018 and 2017, respectively.

25. Sales

Sales consist of:

	<i>Note</i>	2019	2018	2017
Goods		P992,252	P995,633	P799,437
Services		28,250	29,310	26,649
	6	P1,020,502	P1,024,943	P826,086

26. Cost of Sales

Cost of sales consist of:

	<i>Note</i>	2019	2018	2017
Inventories		P565,273	P592,560	P452,122
Taxes and licenses		95,775	79,100	58,259
Depreciation and amortization	28	31,888	30,498	25,710
Energy fees	34	26,417	25,424	23,726
Power purchases	34	21,565	11,321	10,851
Contracted services		16,032	16,393	14,518
Fuel and oil		15,508	23,979	15,657
Freight, trucking and handling		12,003	11,817	10,604
Personnel	29	10,093	11,250	9,195
Tolling fees	34	8,959	8,889	7,970
Communications, light and water		6,643	6,198	5,772
Repairs and maintenance		4,643	5,968	5,387
Rent	4, 34	566	945	830
Others		3,450	1,406	3,620
		P818,815	P825,748	P644,221

27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

	2019	2018	2017
Selling	P41,345	P42,718	P36,629
Administrative	44,627	39,392	34,194
	P85,972	P82,110	P70,823

Selling expenses consist of:

	Note	2019	2018	2017
Freight, trucking and handling		P10,484	P9,853	P8,564
Personnel	29	10,022	11,302	8,612
Advertising and promotions		9,682	8,987	9,085
Depreciation and amortization	28	4,050	3,092	2,949
Rent	4, 34	1,819	3,694	3,423
Repairs and maintenance		1,505	1,449	1,440
Taxes and licenses		841	786	689
Professional fees		659	683	552
Supplies		575	663	589
Communications, light and water		464	494	409
Others		1,244	1,715	317
		P41,345	P42,718	P36,629

Administrative expenses consist of:

	Note	2019	2018	2017
Personnel	29	P21,788	P18,543	P16,862
Depreciation and amortization	28	7,123	4,689	4,391
Taxes and licenses		3,567	3,415	2,511
Professional fees		2,278	2,926	2,530
Repairs and maintenance		2,079	1,321	1,022
Rent	4, 34	1,077	605	739
Communications, light and water		1,066	785	730
Impairment loss	8, 9, 18	1,044	1,024	537
Supplies		772	653	702
Freight, trucking and handling		581	388	259
Research and development		152	152	127
Others	34	3,100	4,891	3,784
		P44,627	P39,392	P34,194

“Others” consist of entertainment and amusement, gas and oil, and other administrative expenses.

28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

	<i>Note</i>	2019	2018	2017
Cost of sales:				
Property, plant and equipment	13	P19,042	P22,682	P18,341
Right-of-use assets	14	5,434	-	-
Deferred containers, biological assets and others	15, 16, 17, 18	7,412	7,816	7,369
	26	31,888	30,498	25,710
Selling and administrative expenses:				
Property, plant and equipment	13	4,619	3,891	4,400
Right-of-use assets	14	1,255	-	-
Deferred containers and others	15, 17, 18	5,299	3,890	2,940
	27	11,173	7,781	7,340
		P43,061	P38,279	P33,050

“Others” include amortization of concession rights, computer software, leasehold and land use rights, licenses and investment property.

29. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	2019	2018	2017
Salaries and wages		P22,222	P20,970	P17,877
Retirement costs - net	35	1,202	2,002	1,832
Other employee benefits	39	18,479	18,123	14,960
		P41,903	P41,095	P34,669

Personnel expenses are distributed as follows:

	<i>Note</i>	2019	2018	2017
Cost of sales	26	P10,093	P11,250	P9,195
Selling expenses	27	10,022	11,302	8,612
Administrative expenses	27	21,788	18,543	16,862
		P41,903	P41,095	P34,669

30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<i>Note</i>	2019	2018	2017
Interest expense		P50,901	P41,518	P31,220
Other financing charges	21, 35	5,118	3,978	4,494
		P56,019	P45,496	P35,714

Amortization of debt issue costs included in “Other financing charges” amounted to P1,968, P1,386 and P2,778 in 2019, 2018 and 2017, respectively (Note 21).

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

	Note	2019	2018	2017
Loans payable	19	P10,473	P7,141	P5,513
Long-term debt	21	31,694	25,983	16,623
Lease liabilities	14, 34	8,734	8,394	9,084
		P50,901	P41,518	P31,220

31. Interest Income

Interest income consists of:

	Note	2019	2018	2017
Interest from short-term investments, cash in banks and others	7, 12, 35	P10,287	P6,709	P4,019
Interest on amounts owed by related parties	33	388	483	506
		P10,675	P7,192	P4,525

32. Other Income (Charges)

Other income (charges) consists of:

	Note	2019	2018	2017
Construction revenue	4, 17, 34	P25,386	P23,062	P18,089
Gain (loss) on foreign exchange - net	40	5,422	(9,714)	241
Dividend income		1,886	1,887	1,350
PSALM monthly fees reduction		1,171	1,615	3,284
Additional provision on impairment (a)	13, 17, 18	(1,573)	(771)	(610)
Gain (loss) on derivatives - net	41	(3,308)	805	(3,665)
Construction costs	4, 17, 34	(25,386)	(23,062)	(18,089)
Others (b)		3,250	550	(446)
		P6,848	(P5,628)	P154

- a. *SMBHK and SMBB*. In 2018, due to the fierce market competition in Hong Kong, SMB tested for impairment the related production plant located in Yuen Long, New Territories. SMB assessed the recoverable amounts of SMBHK’s production plant and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P2,067. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P544.

The recoverable amount of SMBHK’s asset is determined based on a value-in-use calculation and the cash flows are discounted using a discount rate of 10.2%. The discount rate used is pre-tax and reflects specific risks relating to the Hong Kong brewing operations.

In 2019, the Group reassessed the recoverable amount of SMBHK's production plant and concluded that no further impairment losses or reversals of previously recognized impairment losses are required.

As SMBHK's asset has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of the recoverable amount would result in further impairment losses.

In 2017, SMB also incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecasted sales. These factors, among others, are indications that noncurrent assets of the SMB's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired. SMB assessed the recoverable amount of SMBB's assets and the result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P1,262. Accordingly, impairment loss was recognized to reduce carrying amount to recoverable amount of property, plant and equipment amounting to P534.

No impairment losses or reversals of previously recognized impairment losses were recognized in 2018.

In 2019, SMB further incurred losses in its North China operations and assessed the recoverable amount of SMBB's assets located in Baoding, Hebei Province. The result of such assessment was that the carrying amount of the assets was higher than its recoverable amount of P300. Accordingly, impairment loss amounting to P903 was recognized to reduce carrying amount to recoverable amount of property, plant and equipment, and deferred containers.

As SMBB's assets has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of SMBB has been determined based on value in use calculation. The calculation uses cash flow projections based on the business forecasts approved by the management covering a period of 18 years, which is the remaining estimated useful life of the assets. Sales volume growth rate and pre-tax discount rate used for value in use calculation were 5% to 15% and 11%, respectively.

Management determined the growth rate and gross contribution rate based on past experiences and future plans and expected market trends.

- b. "Others" consist of rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO and proceeds from insurance claims. In 2019, the amount also includes tax credit certificates issued by the BIR to SMB for the tax refund cases of San Mig Light for the years 2009 and 2010 amounting to P1,430 (Note 44) and the gain on fair valuation of investment in MNHPI recognized by the Group following its deconsolidation amounting to P727 (Note 5).

33. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

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

	Note	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	8, 18, 36	2019	P7	P -	P6,663	P551	On demand or to be settled on the first anniversary of commercial operations of the Nonoc Project; interest and non-interest bearing	Unsecured; no impairment
		2018	8	-	6,803	551		
Retirement Plans	8, 35	2019	301	-	9,275	-	On demand; interest bearing	Unsecured; no impairment
		2018	399	-	9,516	-		
Associates	8, 18, 20	2019	3,054	178	1,879	251	On demand; interest and non-interest bearing	Unsecured; no impairment
		2018	2,905	251	1,564	193		
	19, 21	2019	-	-	-	22,474	Less than 1 to 10 years; interest bearing	Unsecured and secured
		2018	-	-	-	21,425		
Joint Ventures	8, 18, 20	2019	364	959	755	56	On demand; non-interest bearing	Unsecured; no impairment
		2018	76	1,181	684	64		
Shareholders in Subsidiaries	8, 20	2019	38	57	113	2,375	On demand; non-interest bearing	Unsecured; no impairment
		2018	125	103	29	2,515		
Others	8, 10, 20, 22	2019	2,521	2,468	497	7,739	On demand; non-interest bearing	Unsecured; no impairment
		2018	2,235	1,499	600	7,878		
Total		2019	P6,285	P3,662	P19,182	P33,446		
Total		2018	P5,748	P3,034	P19,196	P32,626		

- a. Amounts owed by related parties consist of current and noncurrent receivables and deposits and share in expenses.

Amounts owed by related parties include interest bearing receivable from the Ultimate Parent Company related to the remaining balance of the consideration for the sale of Clariden Holdings, Inc. (Clariden) amounting to P2,312 and the assignment of certain receivables of the Ultimate Parent Company amounting to P725.

- (i) *Amounts owed by the Ultimate Parent Company amounting to P2,312:* On September 27, 2019, SMC and Top Frontier agreed in writing that the second payment amounting to P1,099, plus 5.75% interest per annum of any portion thereof unpaid, and the final payment amounting to P1,213, plus 6.00% per annum of any portion thereof unpaid, shall be payable on the first anniversary of commercial operations of the Nonoc Project, a project primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte undertaken by Pacific Nickel Philippines, Inc., an indirect subsidiary of Clariden, or such extended date as may be mutually agreed by the parties in writing. These amounts are included as part of noncurrent receivables and deposits under "Other noncurrent assets - net" account in the consolidated statement of financial position as at December 31, 2019 (Note 18).

The second payment, is included as part of “Trade and other receivables - net” account in the consolidated statement of financial position as at December 31, 2018 (Note 8), while the final payment, is included as part of noncurrent receivables and deposits under “Other noncurrent assets - net” account in the consolidated statement of financial position as at December 31, 2018 (Note 18).

(ii) *Amounts owed by the Ultimate Parent Company amounting to P725:* These amounts are subject to 5.75% interest per annum and will accrue upon commencement of commercial operations of the Nonoc Project. These amounts are included as part of noncurrent receivables and deposit under “Other noncurrent assets - net” account in the consolidated statements of financial position as at December 31, 2019 and 2018 (Note 18).

- b. Amounts owed to related parties consist of trade payables, professional fees and leases. As at December 31, 2019, amounts owed to a related party for the lease of office space presented as part of “Lease liabilities - current portion” and “Lease liabilities - net of current portion” amounted to P6 and P10, respectively. The amount owed to the Ultimate Parent Company pertains to dividends payable (Note 36).
- c. The amounts owed to associates include interest bearing loans payable to BOC presented as part of “Loans payable” and “Long-term debt” accounts in the consolidated statements of financial position.
- d. The compensation of key management personnel of the Group, by benefit type, follows:

	Note	2019	2018	2017
Short-term employee benefits		P689	P742	P739
Retirement cost	35	20	8	10
		P709	P750	P749

34. Significant Agreements and Lease Commitments

Significant Agreements:

- Energy
 - *Independent Power Producer (IPP) Administration (IPPA) Agreements*

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for as long as it remains the counterparty of the IPP, it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. the right and obligation to manage and control the capacity of the power plant for its own account and at its own cost and risks;
- ii. the right to trade, sell or otherwise deal with the capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. the right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. for SMEC and SPPC, the right to receive an assignment of NPC's interest in existing short-term bilateral power supply contracts;
- v. the obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. maintain the performance bond in full force and effect with a qualified bank; and
- vii. the obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees amounted to P26,417, P25,424 and P23,726 in 2019, 2018 and 2017, respectively (Note 26). SMEC and SPDC renewed their performance bonds amounting to US\$58 and US\$20, which will expire on November 3, 2020 and January 25, 2020, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2021.

On June 16, 2015, SPPC renewed its performance bond amounting to US\$60 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 44).

- *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL each entered into separate MPAs with Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member.

The relevant parties in each of the MPAs acknowledged that PEMC was entering into the agreement in its capacity as both governing arm and autonomous group market operator of the WESM, and that in due time the market operator functions shall be transferred to an independent market operator (IMO) pursuant to RA No. 9136, otherwise known as the “Electric Power Industry Reform Act of 2001” (EPIRA). The parties further agreed that upon such transfer, all rights, obligations and authority of PEMC under the MPA shall also pertain to the IMO and that all references to PEMC shall also refer to such IMO.

Upon the initiative of the DOE and PEMC, Independent Electricity Market Operator of the Philippines (IEMOP) was incorporated and assumed the functions and obligations as the market operator of the WESM commencing on September 26, 2018. Consequently, SMEC, SPDC, SPPC, SCPC, SMELC, SMCP and MPPCL each entered into separate Supplemental MPAs with PEMC and IEMOP for the transfer of rights of the market operator to IEMOP.

Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. Market fees charged by PEMC to SMEC, SPDC, SPPC, SCPC and MPPCL amounted to P206, P325 and P147 in 2019, 2018 and 2017, respectively (Note 27).

SMELC, SCPC and MPPCL each has a standby letter of credit, expiring in 2020, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

- *Power Supply Agreements (PSA) and Retail Supply Contracts (RSCs)*

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include distribution utilities, electric cooperatives, third party Retail Electricity Supplier (RES) and other entities.

Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

Majority of the consolidated sales of the Group are through long-term take-or-pay offtake contracts, which may have provisions for passing on fuel costs, foreign exchange differentials or certain other fixed costs. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing, flat generation rates, or capacity-based pricing.

For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity plus the energy fees for the associated energy taken during the month. As stipulated in the contracts, energy-based contracts on the other hand are based on the actual energy consumption of customers using the basic energy charge and/or adjustments.

SMEC, SPPC, SPDC, SMCP, SCPC and MPPCL can also purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P21,435, P11,181 and P10,725 in 2019, 2018 and 2017, respectively (Note 26).

- *Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)*

On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. The MOA was extended up to March 25, 2020.

- *Ancillary Service Procurement Agreement (ASPA)*

On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of five years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

- *Coal Supply Agreements*

SMEC, SMCP, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

- *Distribution Wheeling Service (DWS) Agreements*

As RES, SMELC, SCPC and MPPCL each entered into DWS Agreements with certain Distribution Utilities (DUs) for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

The DWS charges from the DUs are passed on to the contestable customers who have opted for a single billing arrangement as provided in the ERC Supplemental Switching Rules.

- *Concession Agreement*

SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 28, 2014, SMC Global and APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of SMC Global under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations:

- i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement and (b) the amount of P2 every quarter for the upkeep of residual ALECO (fixed concession fee);
- ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049;
- iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and
- iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

o COC

Daguma Agro-Minerals, Inc. (DAMI)'s coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68 million metric tons as at December 31, 2019.

Sultan Energy Phils. Corp. (SEPC) has a coal mining property and right over an aggregate area of 7,000 hectares, more or less, composed of seven coal blocks located in South Cotabato and Sultan Kudarat. As at December 31, 2019, COC No. 134 has an In-situ coal resources (measured plus indicated coal resources) of about 35 million metric tons.

Bonanza Energy Resources, Inc. (BERI)'s COC No. 138, issued by the DOE, is located in Sarangani and South Cotabato consisting of eight coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 23 million metric tons as at December 31, 2019.

Status of Operations

The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	20 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

**The term is followed by another ten-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests by DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COCs, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new five-year WPB as required for the extension of the moratorium period to expire in December 2018. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a new five-year WPB which SEPC complied with.

On December 18, 2018, DAMI further requested for another extension of the moratorium. The DOE replied on January 11, 2019 requiring instead of considering another moratorium extension, the submission of a five-year WPB which DAMI complied with.

On December 18, 2018, BERI requested for another extension of the moratorium. Further, on December 27, 2018, BERI applied for a ten-year extension of its COC No. 138 which will expire on May 23, 2019. In answer to these two requests, the DOE, in a letter dated January 11, 2019, required the submission of a five-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, which BERI had actually submitted earlier on January 9, 2019.

The first two years of this new five-year WPB submitted by BERI focuses on the supplemental exploration, with drilling activity especially in Block 58 of the COC No. 138 where mineable reserves of coal are expected to be delineated. Further, within the first two years of the five-year WPB submitted by DAMI, SEPC and BERI, focuses on the “removal of tension cracked materials to prevent landslide” within their respective COC areas as identified by Mines and Geosciences Bureau/Department of Environment and Natural Resources XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

- a. The mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;
- b. The mining method is “contour stripping and progressive rehabilitation” and not the banned “open-pit mining”;
- c. DAMI, SEPC and BERI have vested right to mining within their respective COCs prior to the issuance of the open-pit mining ban; and
- d. The ban could be lifted as a result of court cases filed against it.

On March 2, 2019, DAMI, SEPC and BERI requested DOE for the consolidation of the three COCs for the following justifications:

- a. The coal seams, although of varying thickness are continuous from one COC to another and deal for interconnected contour strip mining due to nearly horizontal deposition;
- b. Sulfur content vary over a wide range from less than one percent in the lower section of the thick seam in DAMI to over four percent in the Maitum blocks of BERI, and would require blending of the coal products from one COC to another in order to meet the acceptable market specification; and
- c. The coal resources and reserves vary greatly from one COC to another as the thickness and depth of the coal seams are variable, thus requiring stringent mine planning, operational efficiency and economic feasibility considerations.

However, on May 15, 2019, DAMI, SEPC and BERI clarified to DOE that their request for consolidation of the three COCs was not meant to abandon nor withdraw the extension request of SEPC applied on September 21, 2018, having in mind the vested right provision of Section 21 of RA No. 11038 or the “Expanded National Integrated Protected Areas System Act of 2018”. Thus, DAMI, SEPC and BERI altogether declared that it is seeking for:

- a. The extension of COC of SEPC; and
- b. The consolidation of COC No. 126 and COC No.138 of DAMI and BERI, respectively, based on the justification set forth in the March 2, 2019 letter.

On November 20, 2019, the DOE informed DAMI and BERI that the request for consolidation of COC No. 126 and COC No. 138 is in the process of evaluation of the proposed consolidated five-year WPB.

On January 10, 2020, DAMI and BERI met with the Energy Resources Development Bureau representatives to discuss the proposed consolidated five-year WPB and the documentary requirements to effect consolidation of the two COCs. As at March 9, 2020, DAMI and BERI are finalizing the documents for submission to DOE to facilitate the process of consolidation and which is expected to be favorably considered and approved by the DOE.

On December 11, 2019, the DOE approved the ten-year extension and the initial five-year WPB for COC No. 134 of SEPC.

As at December 31, 2019, the mining activities of DAMI, SEPC and BERI remain in the preparatory stages. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of its commercial operations.

Based on management's assessment, the carrying amount of the mining rights does not exceed its recoverable amount as at December 31, 2019.

- Fuel and Oil
 - *Supply Agreements*

Petron has assigned all its rights and obligations to PSTPL (as Assignee) to have a term contract to purchase Petron's crude oil requirements from Saudi Arabian Oil Company (Saudi Aramco), based on the latter's standard Far East selling prices and Kuwait Petroleum Corporation (KPC) to purchase Kuwait Export Crude Oil (KEC) at pricing based on latter's standard KEC prices. The contract with Saudi Aramco is from November 1, 2013 to December 31, 2014 while the contract with KPC is from January 1, 2015 to December 31, 2015, both with automatic annual extension thereafter unless terminated at the option of either party, upon at least 60 days written notice.

PMRMB currently has a long-term supply contract of Tapis crude oil and Terengganu condensate for its Port Dickson Refinery from ExxonMobil Exploration and Production Malaysia Inc. (EMEPMI) and Low Sulphur Waxy Residue Sale/Purchase Agreement with Exxon Trading Asia Pacific, a division of ExxonMobil Asia Pacific Pte. Ltd. On the average, around 57% of crude and condensate volume processed are from EMEPMI with balance of around 43% from spot purchases.

Outstanding liabilities of the Group for such purchases are shown as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as at December 31, 2019 and 2018 (Note 20).

- *Lease Agreement with Philippine National Oil Company (PNOC)*

On September 30, 2009, Petron through NVRC entered into a 30-year lease with PNOC without rent-free period, covering a property which it shall use as site for its refinery, commencing on January 1, 2010 and ending on December 31, 2039. Based on the latest re-appraisal made, the annual rental shall be P138, starting 2012, payable on the 15th day of January each year without the necessity of demand. This non-cancellable lease is subject to renewal options and annual escalation clauses of 3% per annum to be applied starting 2013 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2017 and every fifth year thereafter in which the new rental rate shall be determined equivalent to 5% of the reappraised value, and still subject to annual escalation clause of 3% for the four years following the re-appraisal. Prior to this agreement, Petron had an outstanding lease agreement on the same property from PNOC. Also, as at December 31, 2019 and 2018, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 44).

- **Infrastructure**

- *Airport Concession Agreement*

- i. *Boracay Airport*

The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation (DOTr) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As at December 31, 2019, TADHC has yet to pay the OMPS as the Airport Project has not yet entered the In-Service Date.
3. Immediately upon receiving the Notice to Commence Implementation (NCI) and provided all conditions precedent in the Concession Agreement are fulfilled or waived, TADHC shall start all the activities necessary to upgrade and rehabilitate the Boracay Airport into a larger and more technologically advanced aviation facility to allow international airport operations.
4. TADHC shall finance the cost of the Airport Project, while maintaining a debt-to-equity ratio of 70:30, with debt pertaining to a loan with BOC. TADHC's estimated capital commitment to develop the Airport Project amounts to P2,500, including possible advances to the ROP for the right of way up to the amount of P466. Such ratio is complied with as TADHC fully issued its authorized capital stock as a leverage to the loan obtained (Notes 21 and 33).
5. TADHC shall also post a P250 Work Performance Security in favor of the ROP as guarantee for faithful performance by TADHC of the works required to be carried out in connection with the construction and completion of civil, structural, sanitary, mechanical, electrical and architectural infrastructure. This performance security shall be partially released by the ROP from time to time to the extent of the percentage-of-completion of the Airport Project. TADHC has paid P1 premium in 2019, for the Work Performance Security. The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statement of financial position (Note 10).
6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal is currently ongoing and is expected to be completed in 2021.

ii. New Manila International Airport

On August 14, 2019, the ROP, through the DOTr, issued a NOA to SMHC, awarding the New Manila International Airport Project. In accordance with the NOA, SMAI was registered by SMHC as the concessionaire.

On September 18, 2019, SMAI entered into a Concession Agreement with the ROP, through the DOTr, for the right to finance, design, construct, supply, complete, test, commission and eventually operate and maintain the New Manila International Project for a period of 50 years from the issuance of the Certificate of Substantial Completion for the first phase.

The New Manila International Airport Project shall create a gateway for international and domestic travel, with the necessary ancillary facilities to support the creation of a new airport city outside Metro Manila to decongest the existing road networks and provide an alternative higher capacity airport facility.

The salient features of the Concession Agreement are presented below:

1. The New Manila International Airport shall consist of airfield facilities, passenger and cargo terminal buildings, airport support facilities and an airport toll road facility which will connect the New Manila International Airport to the North Luzon Expressway and will be implemented in three phases, with increasing capacity for each phase completed.
2. The implementation of the first phase shall be completed within a period of five years from the date of commencement of construction, with the remaining phases subject to the timely submission and approval of the required documentation for each phase.
3. SMAI shall turnover 100 hectares of land to the ROP as government center land area and execute the necessary documents to transfer full ownership in favor of the ROP.
4. SMAI shall be responsible for the acquisition of right-of-way and possession of sufficient title to the facilities of the site of the New Manila International Airport and the removal or abatement of all liens, encumbrances and hazardous substances within the New Manila International Airport's vicinities as the case may be.
5. SMAI shall provide proper maintenance of the New Manila International Airport's facilities and ensure that all airport facilities and airport toll road are in the condition required upon turnover to the ROP at the end of the concession period.

6. All revenues derived from the operations, maintenance and management of the New Manila International Airport shall accrue to SMAI, including the lease or sublease of all business or commercial ventures and activities consistent with the New Manila International Airport's operations.

o *MRT 7 Concession Agreement*

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US\$1,236, adjusted to 2008 prices at US\$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.
2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.
3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.
4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.
5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the amortization payment made over the total amortization payment to be made during the concession period. After the end of the concession period but provided that all the amortization payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.
6. The amortization payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.
7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.
9. Upon the expiration of the concession period and payment in full of the amortization payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.
10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement.

On April 20, 2016, ULC BVI through the Parent Company, led the ground breaking ceremony for the MRT 7 Project.

Pursuant to Section 19.1 of the Concession Agreement, on September 30, 2016, ULC BVI sent a request letter to the ROP through the DOTr to secure the latter's prior approval in relation to the intention of ULC BVI to assign all its rights and obligations under the Concession Agreement to SMC MRT 7, the designated special purpose company for the MRT 7 Project. The assignment of the rights and obligations from ULC BVI to SMC MRT 7 will be achieved through execution of Accession Agreement. Based on the Concession Agreement, ULC BVI may assign its rights, title, interests or obligations therein, provided that the following conditions are met:

- The assignment will not in any way diminish ULC BVI's principal liability under the Concession Agreement; and
- ULC BVI secures from ROP, through the DOTr, its prior approval, which shall not be unreasonably withheld.

In addition, the letter dated September 30, 2016 from ULC BVI also requested that upon submission by SMC MRT 7 of the lenders' recognition that the Financing Agreements for the MRT 7 Project is for its benefit, the DOTr shall cause the amendment of the Performance Undertaking dated July 23, 2014 by changing the addressee and beneficiary thereof from ULC BVI to SMC MRT 7.

On December 12, 2016, the ROP through the DOTr gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC MRT 7.

Following the DOTr's approval, SMC MRT 7 and ULC BVI carried out the Accession Agreement on January 12, 2017.

o *Toll Road Concession Agreements*

i. *SLEX*

On February 1, 2006, SLTC executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SLTC by virtue of a joint venture to carry out the rehabilitation, construction and expansion of the SLEX, comprising of: Toll Road (TR)1 (Alabang viaduct), TR2 (Filinvest to Calamba, Laguna), TR3 (Calamba, Laguna to Sto. Tomas, Batangas) and TR4 (Sto. Tomas, Batangas to Lucena City). The concession granted shall expire 30 years from February 1, 2006.

On December 14, 2010, the TRB issued the Toll Operations Certificate for Phase 1 of the SLEX i.e., TR1, TR2 and TR3, and approved the implementation of the initial toll rate starting April 1, 2011.

In 2012, SLTC received a letter from the Department of Finance informing SLTC of the conveyance by PNCC to the ROP of its shares of stock in SLTC, by way of deed of assignment. Moreover, SLTC also received the Declarations of Trust signed by the individual nominees of PNCC, in favor of the ROP, in which each nominee affirmed their holding of single, qualifying share in SLTC in favor of the ROP.

On July 21, 2015, SLTC entered into a MOA with Ayala Corporation (AC), on the inter-operability of the SLEX and Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

The MOA on inter-operability provides the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway on July 24, 2015.

ii. NAIA Expressway

On July 8, 2013, Vertex entered into a Concession Agreement with the ROP, through the Department of Public Works and Highways (DPWH), wherein Vertex was granted the right to finance, design, construct, and operate and maintain the NAIA Expressway Project. The NAIA Expressway Project links the three NAIA terminals to the Skyway, the Manila-Cavite Toll Expressway and the Entertainment City of the Philippine Amusement and Gaming Corporation.

On September 22, 2016, Vertex started commercial operations of NAIA Expressway upon receipt of the Toll Operations Permit from the TRB. The Toll Operations Permit for Phase II A and B was issued on September 9, 2016 and December 19, 2016, respectively.

At the end of the concession period, Vertex shall turnover the NAIA Expressway to the DPWH in the condition required for turnover as described in the Minimum Performance Standards Specifications of the Concession Agreement.

iii. Skyway

On June 10, 1994, PNCC, the franchise holder for the construction, operations and maintenance of the Metro Manila Expressway, including any and all extensions, linkages or stretches thereof, such as the proposed Skyway, and PT Citra Lamtoro Gung Persada (Citra), as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering not only the proposed Skyway but also the planned Metro Manila Tollways. The Joint Investment Proposal embodied, among others, that Citra in cooperation with PNCC committed itself to finance, design and construct the Skyway in three stages, consisting of: (a) South Metro Manila Skyway (SMMS) as Stages 1 and 2; (b) North Metro Manila Skyway and the Central Metro Manila Skyway as Stage 3; and (c) Metro Manila Tollways as Stage 4. The Joint Investment Proposal was approved by the TRB on November 27, 1995.

○ Skyway Stages 1 and 2

The STOA for SMMS was executed on November 27, 1995 by and among CMMTC, PNCC and the ROP acting through the TRB. Under the STOA, the design and the construction of the SMMS and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of CMMTC as investor. On the other hand, the operations and maintenance of the SMMS shall be the primary and exclusive privilege, responsibility and obligation of PNCC, through its wholly owned subsidiary, the PNCC Skyway Corporation (PSC).

On July 18, 2007, the STOA was amended, to cover among others, the implementation of Stage 2 of the SMMS (Stage 2); the functional and financial integration of Stage 1 of the SMMS (Stage 1) and Stage 2 upon the completion of the construction of Stage 2; and the grant of right to CMMTC to nominate to the TRB a qualified party to perform the operations and maintenance of the SMMS to replace PSC. CMMTC, PNCC and PSC then entered into a MOA for the successful and seamless turnover of the operations and maintenance responsibilities for the SMMS from PSC to SOMCO.

The SMMS shall be owned by the ROP, without prejudice to the rights and entitlement of CMMTC and SOMCO under the STOA. The legal transfer of ownership of the SMMS to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction. The toll revenues are shared or distributed among CMMTC, SOMCO and PNCC for the operations and maintenance of the SMMS.

The 30-year franchise period for the Integrated Stage 1 and Stage 2 commenced on April 25, 2011.

Under the STOA, CMMTC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and provisional adjustments. Periodic adjustments for the Integrated Stage 1 and Stage 2 may be applied for every year. CMMTC may file an application for provisional adjustment upon the occurrence of a force majeure event or significant currency devaluation. A currency devaluation shall be deemed significant if it results in a depreciation of the value of the Philippine peso relative to the US dollar by at least five percent. The applicable exchange rate shall be the exchange rate between the currencies in effect as at the date of approval of the prevailing preceding toll rate.

- Skyway Stage 3

The Stage 3 STOA was executed on July 8, 2013 by and among the ROP as the Grantor, acting by and through the TRB, PNCC, CCEC as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein CCEC was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 14.82 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CCEC and CMMSC under the Stage 3 STOA. The legal transfer of ownership of the Skyway Stage 3 Project to the ROP shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof.

The franchise period for the Skyway Stage 3 Project is 30 consecutive years commencing from the issuance of the Toll Operation Certificate for the entire Skyway Stage 3 Project to CCEC and/or CMMSC. As at December 31, 2019, the Skyway Stage 3 Project is in the construction stage.

CCEC and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

- o Skyway Stage 4

On July 14, 2014, the Stage 4 STOA was executed by and among the ROP as the Grantor, acting through the TRB and PNCC, CITI as the Investor, and Metro O&M Corporation (MOMCO) as the Operator. CITI was granted the primary and exclusive privilege, responsibility, and obligation to finance the design and construction of Skyway Stage 4 Project, while MOMCO was granted the primary and exclusive privilege, responsibility and obligation to operate and maintain the same.

The Skyway Stage 4 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of CITI and MOMCO under the Stage 4 STOA. The legal transfer of ownership shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction thereof. The 30-year concession period shall commence from the date of issuance of the Toll Operation Certificate by the TRB to CITI and/or MOMCO.

As at December 31, 2019 the Skyway Stage 4 Project is in the inception of its construction stage.

iv. TPLEX

PIDC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 89.21 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of PIDC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each segment of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of PIDC. PIDC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, PIDC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 30.31-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14.91-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting March 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 6, 2017, while Segment 8 (Pozorrubio to Rosario), which is the final phase of the TPLEX Project is almost done.

v. *STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

Stage	Project Description
Stage I	Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas
Stage II (Phases I and II)	Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

○ *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement. The Bulacan Bulk Water Supply Project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the province of Bulacan.

On January 24, 2019, LCWDC commenced operations upon issuance of the Certificate of Final Acceptance by the MWSS for the completion of all works required under Stage 1 of the Bulacan Bulk Water Supply Project.

On April 25, 2019, the MWSS issued the Certificate of Final Acceptance for Stage 2 of the Bulacan Bulk Water Supply Project.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay water right fee to the Provincial Government of Bulacan amounting to an aggregate amount of P25 for the first five years of operation and a certain percentage of annual gross revenue from the sixth year until the transfer date.
2. The Bulacan Bulk Water Supply Project will be implemented in three stages in different localities around the Province of Bulacan. The Water Service Providers (WSPs) entered into separate Memoranda of Understanding (MOU) with MWSS pursuant to which they agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Supply Project. Each MOU also provides that MWSS, respective WSP, and LCWDC will enter into a MOA simultaneous with the execution of the Concession Agreement.
3. LCWDC can use the National Housing Authority (NHA) site for the water treatment facility. The NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC can either pay in staggered cash or in installment. Ownership of NHA site shall be and shall remain with MWSS at all times.

LCWDC may also opt to acquire an alternative site, including all land rights, and rights of way (whether permanent or temporary) required and otherwise necessary to access the alternative site and carry out the works for the water treatment facility. Ownership of alternative site, land rights and right of way required shall be with LCWDC and shall continue to be so until transfer date.

4. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.

- Food and Beverage

- *Toll Agreements*

The significant subsidiaries of SMFB have entered into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the “Parties”). The terms of the agreements include the following, among others:

- The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.
- Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.
- The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

Total tolling expenses included as part of “Cost of sales” account in the consolidated statements of income amounted to P8,959, P8,889 and P7,970 in 2019, 2018 and 2017, respectively (Note 26).

Lease Commitments

- Group as Lessees under PAS 17

- Finance Leases*

As at January 1, 2019, assets classified as finance lease under PAS 17 and presented as part of “Property, plant and equipment - net” are reclassified to “Right-of-use assets - net” account in the consolidated statements of financial position (Notes 3, 4, 13 and 14).

- a. IPPA Agreements

The IPPA Agreements provide the Group with a right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out. In accounting for the Group’s IPPA Agreements with PSALM, the Group’s management has made a judgment that the IPPA Agreements are agreements that contains a finance lease. The Group’s management has also made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the carrying amount of the Group’s capitalized asset and related liability of P167,387 and P141,916, respectively, as at December 31, 2018, (equivalent to the present value of the minimum lease payments using the Group’s incremental borrowing rates for US dollar and Philippine peso payments) are presented as part of “Property, plant and equipment - net” and “Lease liabilities” accounts in the consolidated statements of financial position (Notes 4 and 13).

The carrying amount of the Group’s capitalized asset and related liability of P162,201 and P119,835, respectively, are presented as part of “Right-of-use assets - net” and “Lease liabilities” accounts in the consolidated statement of financial position as at December 31, 2019 (Notes 4 and 14).

The Group's incremental borrowing rates are as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at the inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P7,290, P8,321 and P9,074 in 2019, 2018 and 2017, respectively (Note 30).

The future minimum lease payments as at December 31, 2018 are as follows:

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$268	P14,095	P12,836	P26,931
More than one year and not later than five years	1,054	55,400	50,478	105,878
Later than five years	360	18,937	17,275	36,212
	1,682	88,432	80,589	169,021
Less: Future finance charges on lease liabilities	185	9,724	17,381	27,105
Present values of lease liabilities	US\$1,497	P78,708	P63,208	P141,916

The present values of minimum lease payments as at December 31, 2018 are as follows:

	Dollar Payments	Peso Equivalent of Dollar Payments	Peso Payments	Total
Not later than one year	US\$217	P11,392	P8,198	P19,590
More than one year and not later than five years	939	49,364	39,689	89,053
Later than five years	341	17,952	15,321	33,273
	US\$1,497	P78,708	P63,208	P141,916

b. Land Lease Agreement with PSALM

MPPCL has an existing lease agreement with PSALM for the lease of the 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P16 (Note 13).

The lease liability is amortized using the discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P3 and P66 in 2019 and 2018, respectively (Note 30).

Upon adoption of PFRS 16, adjustment pertaining to MPPCL's land under lease arrangement amounted to P127 as at January 1, 2019. MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position amounted to P108 as at December 31, 2019 (Notes 4 and 14).

Future minimum lease payments under finance lease with the present value of future minimum lease payments as at December 31, 2018 follow:

	Minimum Lease Payments	Present Value of Minimum Lease Payments
Not later than one year	P69	P69
More than one year but not more than five years	16	13
Later than five years	17	10
	102	92
Less: Future finance charges on lease liabilities	10	-
Present values of lease liabilities	P92	P92

c. Equipment

The Group's finance leases cover equipment needed for business operations of MNHPI. The agreements do not allow subleasing. The net carrying amount of leased assets is P137 as at December 31, 2018 (Notes 4 and 13).

The carrying amount of the leased asset as at April 26, 2019 was deconsolidated following the increase in the shareholdings of non-controlling interest of MNHPI (Note 5).

Interest expense amounted to P1, P7 and P10 in 2019, 2018 and 2017, respectively (Note 30).

The Group's share in the minimum lease payments for these lease liabilities as at December 31, 2018 are as follows:

	Minimum Lease Payable	Interest	Principal
Within one year	P42	P3	P39
After one year but not more than five years	20	1	19
	P62	P4	P58

Operating Leases

The Group leases a number of office, warehouse, factory facilities and parcels of land under operating leases. The leases typically run for a period of one to 16 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

Non-cancellable operating lease rentals as at December 31, 2018 are payable as follows:

	2018
Within one year	P2,933
After one year but not more than five years	9,771
More than five years	21,462
	P34,166

As at January 1, 2019, the Group recognized right-of-use assets and lease liabilities for these leases, except for short-term leases and leases of low-value assets (Notes 3 and 14).

Rent expense recognized in the consolidated statements of income amounted to P5,244 and P4,992 in 2018 and 2017, respectively (Notes 4, 26 and 27).

▪ **Group as Lessor**

The Group has entered into operating leases on its investment property portfolio, consisting of surplus office spaces and leased property (Note 15) and certain service stations and other related structures and machinery and equipment, as well as leased property (Note 13). The leases have terms of three to ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

Operating Leases under PFRS 16	2019
Within one year	P1,421
One to two years	943
Two to three years	668
Three to four years	511
Four to five years	548
More than five years	7,809
	P11,900
Operating Leases under PAS 17	2018
Within one year	P326
After one year but not more than five years	504
After five years	536
	P1,366

Rent income recognized in the consolidated statements of income amounted to P1,346, P785 and P1,307 in 2019, 2018 and 2017, respectively (Note 4 and 32).

35. Retirement Plans

The Parent Company and majority of its subsidiaries have funded, noncontributory, defined benefit retirement plans (collectively, the Retirement Plans) covering all of their permanent employees. The Retirement Plans of the Parent Company and majority of its subsidiaries pay out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plans. Annual cost is determined using the projected unit credit method. Majority of the Group's latest actuarial valuation date is December 31, 2019. Valuations are obtained on a periodic basis.

Majority of the Retirement Plans are registered with the BIR as tax-qualified plans under RA No. 4917, as amended. The control and administration of the Group's Retirement Plans are vested in the Board of Trustees of each Retirement Plan. Majority of the Board of Trustees of the Group's Retirement Plans who exercises voting rights over the shares and approves material transactions are employees and/or officers of the Parent Company and its subsidiaries. The Retirement Plans' accounting and administrative functions are undertaken by the Retirement Funds Office of the Parent Company.

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

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Liability	
	2019	2018	2019	2018	2019	2018	2019	2018
Balance at beginning of year	P33,468	P29,748	(P32,779)	(P32,209)	(P3,321)	(P3,188)	(P2,632)	(P5,649)
Benefit asset (obligation) of newly-acquired/deconsolidated subsidiaries	(40)	-	143	(165)	-	-	103	(165)
Recognized in profit or loss								
Service costs	-	-	(1,168)	(1,779)	-	-	(1,168)	(1,779)
Interest expense	-	-	(2,330)	(1,823)	-	-	(2,330)	(1,823)
Interest income	2,401	1,777	-	-	-	-	2,401	1,777
Interest on the effect of asset ceiling	-	-	-	-	(247)	(181)	(247)	(181)
Settlement gain (loss)	-	-	(34)	4	-	-	(34)	4
	2,401	1,777	(3,532)	(3,598)	(247)	(181)	(1,378)	(2,002)
Recognized in other comprehensive income								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	-	-	(818)	(2,557)	-	-	(818)	(2,557)
Changes in financial assumptions	-	-	(476)	3,698	-	-	(476)	3,698
Changes in demographic assumptions	-	-	179	(93)	-	-	179	(93)
Return on plan assets excluding interest income	(4,088)	(1,636)	-	-	-	-	(4,088)	(1,636)
Changes in the effect of asset ceiling	-	-	-	-	1,821	48	1,821	48
	(4,088)	(1,636)	(1,115)	1,048	1,821	48	(3,382)	(540)
Others								
Contributions	3,025	5,513	-	-	-	-	3,025	5,513
Benefits paid	(3,879)	(1,960)	3,989	2,150	-	-	110	190
Transfers from other plans	2	18	(2)	(18)	-	-	-	-
Transfers to other plans	(2)	(18)	2	18	-	-	-	-
Other adjustments	(18)	26	29	(5)	-	-	11	21
	(872)	3,579	4,018	2,145	-	-	3,146	5,724
Balance at end of year	P30,869	P33,468	(P33,265)	(P32,779)	(P1,747)	(P3,321)	(P4,143)	(P2,632)

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

Retirement benefits recognized in the consolidated statements of income by the Parent Company amounted to P13, P38 and P18 in 2019, 2018 and 2017, respectively (Notes 29 and 31).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P1,391, P2,040 and P1,850 in 2019, 2018 and 2017, respectively (Notes 29, 30 and 31).

As at December 31, 2019, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,496 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P154 and P6,485, respectively (Notes 20 and 22).

As at December 31, 2018, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,838 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P128 and P5,342, respectively (Notes 20 and 22).

The carrying amounts of the Group's retirement fund approximate fair values as at December 31, 2019 and 2018.

The Group's plan assets consist of the following:

	In Percentages	
	2019	2018
Investments in marketable securities and shares of stock	75.04	74.16
Investments in pooled funds:		
Fixed income portfolio	8.44	8.95
Stock trading portfolio	2.43	4.09
Investments in real estate	1.48	1.32
Others	12.61	11.48

Investments in Marketable Securities

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

- 48,979,367 common shares and 2,875,200 Subseries "2-D", 4,133,190 Subseries "2-E", 8,038,270 Subseries "2-F", 103,730 Subseries "2-G", 264,840 Subseries "2-H" and 9,782,770 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P164.00, P75.00, P77.00, P75.80, P76.00, P75.05 and P75.20, respectively;
- 744,248,797 common shares and 460,000 preferred shares of Petron with fair market value per share of P3.86 and P1,055.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 22,491,570 common shares of GSMI with fair market value per share of P38.00;
- 8,166,480 common shares of SMFB with fair market value per share of P85.00;
- 250,750 preferred shares of SMFB with fair market value per share of P997.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and

- 5,975,541 common shares of Top Frontier with fair market value per share of P214.00.

As at December 31, 2018, the plan assets include:

- 48,631,227 common shares and 30,338,650 Subseries "2-B", 2,872,500 Subseries "2-D", 4,133,190 Subseries "2-E", 8,038,270 Subseries "2-F", 75,630 Subseries "2-G", 264,840 Subseries "2-H" and 6,356,670 Subseries "2-I" preferred shares of the Parent Company with fair market value per share of P147.00, P75.00, P74.95, P73.00, P75.00, P74.90, P74.50 and P73.50, respectively;
- 744,178,797 common shares and 290,470 preferred shares of Petron with fair market value per share of P7.71 and P980.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 23,891,570 common shares of GSMI with fair market value per share of P26.75;
- 2,269,980 common shares of SMFB with fair market value per share of P82.00;
- 250,700 preferred shares of SMFB with fair market value per share of P997.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- 5,975,541 common shares of Top Frontier with fair market value per share of P249.80.

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as at the reporting date (Note 4).

The Group's Retirement Plans recognized a gain (loss) on the investment in marketable securities of Top Frontier, Parent Company and its subsidiaries amounting to (P1,811), P97 and P794 in 2019, 2018 and 2017, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P495, P515 and P474 in 2019, 2018 and 2017, respectively.

Investments in Shares of Stock

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 39.94% equity interest in BOC representing 44,834,286 common shares, accounted for under the equity method, amounting to P9,684 and P9,407 as at December 31, 2019 and 2018, respectively. SMCRP recognized its share in total comprehensive income (loss) of BOC amounting to P277 and (P189) in 2019 and 2018, respectively.

b. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in 4,708,494 preferred shares of stock of BPI, measured using cost method since cost approximates fair value, amounting to P859 and P769 as at December 31, 2019 and 2018, respectively.

Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Group to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plans have set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Approximately 80% and 72% of the Retirement Plans' investments in pooled funds in stock trading portfolio include investments in shares of stock of the Parent Company and its subsidiaries as at December 31, 2019 and 2018, respectively.

Approximately 68% and 76% of the Retirement Plans' investments in pooled funds in fixed income portfolio include investments in shares of stock of the Parent Company and its subsidiaries as at December 31, 2019 and 2018, respectively.

Investments in Real Estate

The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P633 and P634 as at December 31, 2019 and 2018, respectively.

Others

Others include the Retirement Plans' investments in trust account, government securities, bonds and notes, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Group's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Group monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation. The Group is expected to contribute P1,933 to the Retirement Plans in 2020.

The Retirement Plans expose the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

Investment and Interest Rate Risks. The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plans' investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plans. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Group to manage the Retirement Plans efficiently.

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

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

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

	In Percentages	
	2019	2018
Discount rate	4.40 - 7.75	5.50 - 8.50
Salary increase rate	5.00 - 8.00	5.00 - 8.00

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

The weighted average duration of defined benefit retirement obligation ranges from 3.7 to 23.7 years and 3.1 to 21 years as at December 31, 2019 and 2018, respectively.

As at December 31, 2019 and 2018, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefit retirement obligation by the amounts below, respectively:

	Defined Benefit Retirement Obligation			
	2019		2018	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P1,747)	P2,043	(P1,709)	P1,985
Salary increase rate	2,214	(1,939)	2,153	(1,908)

The outstanding balances of the Group's receivable from the retirement plans are as follows:

- a. The Parent Company has advances to SMCRP amounting to P7,304 and P7,117 as at December 31, 2019 and 2018, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 33). The advances are subject to interest of 5.75% in 2019 and 2018 (Note 31).
- b. Petron has advances to PCERP amounting to P1,971 and P2,399 as at December 31, 2019 and 2018, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 33). The advances are subject to interest of 5% in 2019 and 2018 (Note 31).

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as at December 31, 2019 and 2018 are unsecured and settlements are made in cash. There have been no guarantees provided for any retirement plan receivables. The Group has not made any provision for impairment losses relating to the receivables from the Retirement Plans in 2019, 2018 and 2017.

36. Cash Dividends

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

2019

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common				
	March 14, 2019	April 5, 2019	May 3, 2019	P0.35
	June 11, 2019	July 5, 2019	July 30, 2019	0.35
	September 12, 2019	October 11, 2019	October 31, 2019	0.35
	December 5, 2019	January 3, 2020	January 24, 2020	0.35
Preferred				
SMCP1	January 24, 2019	March 22, 2019	April 5, 2019	1.0565625
	May 9, 2019	June 21, 2019	July 5, 2019	1.0565625
	August 8, 2019	September 20, 2019	October 4, 2019	1.0565625
	November 7, 2019	December 20, 2019	January 10, 2020	1.0565625
SMC2B	January 24, 2019	March 22, 2019	April 5, 2019	1.4296875
	May 9, 2019	June 21, 2019	July 5, 2019	1.4296875
	August 8, 2019	September 20, 2019	October 4, 2019	1.4296875
SMC2C	January 24, 2019	March 22, 2019	April 5, 2019	1.50
	May 9, 2019	June 21, 2019	July 5, 2019	1.50
	August 8, 2019	September 20, 2019	October 4, 2019	1.50
	November 7, 2019	December 20, 2019	January 10, 2020	1.50
SMC2D	January 24, 2019	March 22, 2019	April 5, 2019	1.11433125
	May 9, 2019	June 21, 2019	July 5, 2019	1.11433125
	August 8, 2019	September 20, 2019	October 4, 2019	1.11433125
	November 7, 2019	December 20, 2019	January 10, 2020	1.11433125
SMC2E	January 24, 2019	March 22, 2019	April 5, 2019	1.18603125
	May 9, 2019	June 21, 2019	July 5, 2019	1.18603125
	August 8, 2019	September 20, 2019	October 4, 2019	1.18603125
	November 7, 2019	December 20, 2019	January 10, 2020	1.18603125
SMC2F	January 24, 2019	March 22, 2019	April 5, 2019	1.27635
	May 9, 2019	June 21, 2019	July 5, 2019	1.27635
	August 8, 2019	September 20, 2019	October 4, 2019	1.27635
	November 7, 2019	December 20, 2019	January 10, 2020	1.27635
SMC2G	January 24, 2019	March 22, 2019	April 5, 2019	1.23361875
	May 9, 2019	June 21, 2019	July 5, 2019	1.23361875
	August 8, 2019	September 20, 2019	October 4, 2019	1.23361875
	November 7, 2019	December 20, 2019	January 10, 2020	1.23361875
SMC2H	January 24, 2019	March 22, 2019	April 5, 2019	1.1854125
	May 9, 2019	June 21, 2019	July 5, 2019	1.1854125
	August 8, 2019	September 20, 2019	October 4, 2019	1.1854125
	November 7, 2019	December 20, 2019	January 10, 2020	1.1854125
SMC2I	January 24, 2019	March 22, 2019	April 5, 2019	1.18790625
	May 9, 2019	June 21, 2019	July 5, 2019	1.18790625
	August 8, 2019	September 20, 2019	October 4, 2019	1.18790625
	November 7, 2019	December 20, 2019	January 10, 2020	1.18790625

2018

Class of Shares	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Common	March 15, 2018	April 6, 2018	May 4, 2018	P0.35
	June 14, 2018	July 2, 2018	July 25, 2018	0.35
	September 13, 2018	October 5, 2018	October 30, 2018	0.35
	December 6, 2018	January 2, 2019	January 24, 2019	0.35
Preferred SMCP1	January 25, 2018	March 8, 2018	April 5, 2018	1.0565625
	May 10, 2018	June 21, 2018	July 6, 2018	1.0565625
	August 9, 2018	September 21, 2018	October 5, 2018	1.0565625
	November 13, 2018	December 21, 2018	January 11, 2019	1.0565625
SMC2B	January 25, 2018	March 8, 2018	April 5, 2018	1.4296875
	May 10, 2018	June 21, 2018	July 6, 2018	1.4296875
	August 9, 2018	September 21, 2018	October 5, 2018	1.4296875
	November 13, 2018	December 21, 2018	January 11, 2019	1.4296875
SMC2C	January 25, 2018	March 8, 2018	April 5, 2018	1.50
	May 10, 2018	June 21, 2018	July 6, 2018	1.50
	August 9, 2018	September 21, 2018	October 5, 2018	1.50
	November 13, 2018	December 21, 2018	January 11, 2019	1.50
SMC2D	January 25, 2018	March 8, 2018	April 5, 2018	1.11433125
	May 10, 2018	June 21, 2018	July 6, 2018	1.11433125
	August 9, 2018	September 21, 2018	October 5, 2018	1.11433125
	November 13, 2018	December 21, 2018	January 11, 2019	1.11433125
SMC2E	January 25, 2018	March 8, 2018	April 5, 2018	1.18603125
	May 10, 2018	June 21, 2018	July 6, 2018	1.18603125
	August 9, 2018	September 21, 2018	October 5, 2018	1.18603125
	November 13, 2018	December 21, 2018	January 11, 2019	1.18603125
SMC2F	January 25, 2018	March 8, 2018	April 5, 2018	1.27635
	May 10, 2018	June 21, 2018	July 6, 2018	1.27635
	August 9, 2018	September 21, 2018	October 5, 2018	1.27635
	November 13, 2018	December 21, 2018	January 11, 2019	1.27635
SMC2G	January 25, 2018	March 8, 2018	April 5, 2018	1.23361875
	May 10, 2018	June 21, 2018	July 6, 2018	1.23361875
	August 9, 2018	September 21, 2018	October 5, 2018	1.23361875
	November 13, 2018	December 21, 2018	January 11, 2019	1.23361875
SMC2H	January 25, 2018	March 8, 2018	April 5, 2018	1.1854125
	May 10, 2018	June 21, 2018	July 6, 2018	1.1854125
	August 9, 2018	September 21, 2018	October 5, 2018	1.1854125
	November 13, 2018	December 21, 2018	January 11, 2019	1.1854125
SMC2I	January 25, 2018	March 8, 2018	April 5, 2018	1.18790625
	May 10, 2018	June 21, 2018	July 6, 2018	1.18790625
	August 9, 2018	September 21, 2018	October 5, 2018	1.18790625
	November 13, 2018	December 21, 2018	January 11, 2019	1.18790625

On January 23, 2020, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at March 20, 2020 on the following shares to be paid on April 3, 2020, as follows:

Class of Shares	Dividends Per Share
SMCP1	P1.0565625
SMC2C	1.50
SMC2D	1.11433125
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625

On March 12, 2020, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as at April 3, 2020 to be paid on April 30, 2020.

37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	Note	2019	2018	2017
Net income attributable to equity holders of the Parent Company		P21,329	P23,077	P28,225
Dividends on preferred shares	24, 36	(7,187)	(7,317)	(7,317)
Net income attributable to common shareholders of the Parent Company (a)		P14,142	P15,760	P20,908
Weighted average number of common shares outstanding (in millions) - basic (c)		2,384	2,383	2,381
Effect of dilution of common shares (in millions)		-	-	2
Weighted average number of common shares outstanding (in millions) - diluted (d)		2,384	2,383	2,383
Earnings per common share attributable to equity holders of the Parent Company:				
Basic (a/c)		P5.93	P6.61	P8.78
Diluted (a/d)		5.93	6.61	8.77

38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

	2019	2018	2017
Trade and other receivables - net	(P10,539)	(P10,398)	(P10,677)
Inventories	(8,949)	(15,598)	(19,573)
Prepaid expenses and other current assets	6,026	(10,869)	(3,139)
Accounts payable and accrued expenses	31,446	(6,101)	11,732
Income and other taxes payable and others	(2,886)	1,889	2,624
	P15,098	(P41,077)	(P19,033)

b. Acquisition of Subsidiaries

	Note	2019	2018	2017
Cash and cash equivalents		P301	P1,715	P29
Trade and other receivables - net		285	2,679	897
Inventories		326	2,577	172
Prepaid expenses and other current assets		154	1,639	(264)
Investments and advances - net		-	190	-
Property, plant and equipment - net	13	1,959	62,323	1,186
Right-of-use assets - net	14	179	-	-
Investment property - net	15	-	90	707
Other intangible assets - net	17	8	80	-
Deferred tax assets		12	66	47
Other noncurrent assets - net		387	3,095	-
Loans payable		-	(2,344)	-
Accounts payable and accrued expenses		(899)	(9,951)	(1,233)
Income and other taxes payable		(24)	(234)	(63)
Long-term debt - net of debt issue costs		(48)	(31,952)	-
Deferred tax liabilities		(1)	(116)	(43)
Lease liabilities		(193)	(31)	-
Other noncurrent liabilities		-	(210)	-
Non-controlling interests		(45)	(198)	-
Net assets		2,401	29,418	1,435
Cash and cash equivalents		(301)	(1,715)	(29)
Goodwill in subsidiaries	4, 17	53	70,384	1,162
Investments and advances		(745)	(30)	-
Net cash flows		P1,408	P98,057	P2,568

c. Changes in liabilities arising from financing activities

	Loans Payable	Long-term Debt	Lease Liabilities	Dividends Payable
Balance as at January 1, 2019, as adjusted	P184,024	P617,615	P164,212	P4,042
Changes from Financing Activities				
Proceeds from borrowings	1,405,972	158,746	-	-
Payments of borrowings	(1,416,504)	(85,968)	-	-
Payments of lease liabilities	-	-	(20,673)	-
Dividends and distributions paid	-	-	-	(30,652)
Total Changes from Financing Activities	(10,532)	72,778	(20,673)	(30,652)
The Effect of Changes in Foreign Exchange Rates	(431)	(9,417)	(2,827)	2
Acquisition of Subsidiaries and Other Changes	(3,569)	1,828	1,536	30,724
Balance as at December 31, 2019	P169,492	P682,804	P142,248	P4,116

	Loans Payable	Long-term Debt	Finance Lease Liabilities	Dividends Payable
Balance as at January 1, 2018	P149,863	P399,492	P154,897	P4,429
Changes from Financing Activities				
Proceeds from borrowings	996,769	242,405	-	-
Payments of borrowings	(964,464)	(65,591)	-	-
Payments of lease liabilities	-	-	(25,698)	-
Dividends and distributions paid	-	-	-	(29,706)
Total Changes from Financing Activities	32,305	176,814	(25,698)	(29,706)
The Effect of Changes in Foreign Exchange Rates	(488)	7,951	4,510	(2)
Acquisition of Subsidiaries and Other Changes	2,344	33,358	8,357	29,321
Balance as at December 31, 2018	P184,024	P617,615	P142,066	P4,042

39. Share-Based Transactions

ESPP

Under the ESPP, 80,396,659 shares (inclusive of stock dividends declared) of the Parent Company's unissued shares have been reserved for the employees of the Group. All permanent Philippine-based employees of the Group, who have been employed for a continuous period of one year prior to the subscription period, will be allowed to subscribe at 15% discount to the market price equal to the weighted average of the daily closing prices for three months prior to the offer period. A participating employee may acquire at least 100 shares of stock through payroll deductions.

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to the Parent Company until the subscription is fully paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from the exercise date.

The ESPP also allows subsequent withdrawal and cancellation of participants' subscriptions under certain terms and conditions. The shares pertaining to withdrawn or cancelled subscriptions shall remain issued shares and shall revert to the pool of shares available under the ESPP or convert such shares to treasury stock. As at December 31, 2019 and 2018, 3,478,400 common shares which were cancelled under the ESPP are held in treasury (Note 24).

There were no shares offered under the ESPP in 2019 and 2018.

LTIP

The Parent Company also maintains LTIP for the executives of the Group. The options are exercisable at the fair market value of the Parent Company shares as at the date of grant, with adjustments depending on the average stock prices of the prior three months. A total of 54,244,905 shares, inclusive of stock dividends declared, are reserved for the LTIP over its ten-year life. The LTIP is administered by the Executive Compensation Committee of the Parent Company's BOD.

There were no LTIP offered to executives in 2019 and 2018.

There were no options outstanding as at December 31, 2019 and December 31, 2018 (Note 37).

The stock options granted under the LTIP cannot be assigned or transferred by a participant and are subject to a vesting schedule. After one complete year from the date of the grant, 33% of the stock option becomes vested. Another 33% is vested on the second year and the remaining option lot is fully vested on the third year.

Vested stock options may be exercised at any time, up to a maximum of eight years from the date of grant. All unexercised stock options after this period are considered forfeited.

A summary of the status of the outstanding share stock options and the related weighted average price under the LTIP is shown below:

	<i>Note</i>	2018	
		Number of Share Stock Options	Weighted Average Price
Number of shares at beginning of year		1,782,790	P120.33
Exercised during the year	24	(1,630,873)	120.33
Expired during the year		(151,917)	120.33
Number of shares at end of year		-	-

The fair value of equity-settled share options granted is estimated as at the date of grant using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expected volatility is estimated by considering average share price volatility.

40. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

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

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

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. The management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

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

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

December 31, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P24,515 4.9925% - 9.885%	P46,288 4.0032% - 9.885%	P65,491 4.8243% - 9.885%	P53,914 4.5219% - 9.885%	P88,870 4.63% - 9.885%	P138,315 5.1792% - 9.885%	P417,393
Foreign currency-denominated (expressed in Philippine peso) Interest rate	2,467 4.7776% - 5.5959%	2,638 4.7776% - 5.5959%	1,891 4.7776% - 5.5959%	32,855 4.7776% - 5.5959%	1,117 5.5959%	13,368 5.5959%	54,336
Floating Rate							
Philippine peso-denominated Interest rate	1,034 BVAL + margin or BSP overnight rate, whichever is higher	1,719 BVAL + margin or BSP overnight rate, whichever is higher	2,714 BVAL + margin or BSP overnight rate, whichever is higher	1,042 BVAL + margin or BSP overnight rate, whichever is higher	162 BVAL + margin or BSP overnight rate, whichever is higher	12,000 BVAL + margin or BSP overnight rate, whichever is higher	18,671
Foreign currency-denominated (expressed in Philippine peso) Interest rate	16,394 LIBOR/applicable reference rate + margin	37,404 LIBOR/applicable reference rate + margin	26,375 LIBOR/applicable reference rate + margin	100,241 LIBOR/applicable reference rate + margin	13,510 LIBOR/applicable reference rate + margin	5,825 LIBOR/applicable reference rate + margin	199,749
	P44,410	P88,049	P96,471	P188,052	P103,659	P169,508	P690,149
December 31, 2018	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated Interest rate	P29,436 5.4583% - 10.50%	P28,159 4.9925% - 8.6615%	P51,765 4.0032% - 9.885%	P49,110 4.8243% - 9.885%	P49,465 4.5219% - 9.885%	P161,404 5.1792% - 9.885%	P369,339
Foreign currency-denominated (expressed in Philippine peso) Interest rate	1,949 4.7776% - 5.5959%	2,477 4.7776% - 5.5959%	2,607 4.7776% - 5.5959%	1,838 4.7776% - 5.5959%	33,965 4.7776% - 5.5959%	12,222 5.5959%	55,058
Floating Rate							
Philippine peso-denominated Interest rate	1,239 BVAL + margin or BSP overnight rate, whichever is higher	985 BVAL + margin or BSP overnight rate, whichever is higher	1,503 BVAL + margin or BSP overnight rate, whichever is higher	2,347 BVAL + margin or BSP overnight rate, whichever is higher	726 BVAL + margin or BSP overnight rate, whichever is higher	- -	6,800
Foreign currency-denominated (expressed in Philippine peso) Interest rate	23,558 LIBOR + margin	20,051 LIBOR + margin	26,404 LIBOR + margin	14,956 LIBOR + margin	99,541 LIBOR + margin	8,756 LIBOR + margin	193,266
	P56,182	P51,672	P82,279	P68,251	P183,697	P182,382	P624,463

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,184, P2,001 and P1,037 in 2019, 2018 and 2017, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

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

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	December 31, 2019		December 31, 2018	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$3,471	P175,824	US\$2,444	P128,529
Trade and other receivables	862	43,637	842	44,237
Prepaid expenses and other current assets	11	545	17	926
Noncurrent receivables	20	1,006	87	4,552
	4,364	221,012	3,390	178,244
Liabilities				
Loans payable	90	4,503	696	36,574
Accounts payable and accrued expenses	1,592	80,579	1,156	60,808
Long-term debt (including current maturities)	5,018	254,085	4,722	248,324
Lease liabilities (including current portion)	1,368	69,286	1,499	78,799
Other noncurrent liabilities	177	8,974	166	8,722
	8,245	417,427	8,239	433,227
Net foreign currency-denominated monetary liabilities	(US\$3,881)	(P196,415)	(US\$4,849)	(P254,983)

The Group reported net gains (losses) on foreign exchange amounting to P5,422, (P9,714) and P241 in 2019, 2018 and 2017, respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 32). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2019	50.64
December 31, 2018	52.58
December 31, 2017	49.93

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2019				
Cash and cash equivalents	(P3,041)	(P2,554)	P3,041	P2,554
Trade and other receivables	(304)	(545)	304	545
Prepaid expenses and other current assets	(8)	(8)	8	8
Noncurrent receivables	(18)	(14)	18	14
	(3,371)	(3,121)	3,371	3,121
Loans payable	-	90	-	(90)
Accounts payable and accrued expenses	1,010	1,288	(1,010)	(1,288)
Long-term debt (including current maturities)	4,220	3,752	(4,220)	(3,752)
Lease liabilities (including current portion)	1,345	965	(1,345)	(965)
Other noncurrent liabilities	151	160	(151)	(160)
	6,726	6,255	(6,726)	(6,255)
	P3,355	P3,134	(P3,355)	(P3,134)

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2018				
Cash and cash equivalents	(P2,031)	(P1,835)	P2,031	P1,835
Trade and other receivables	(334)	(790)	334	790
Prepaid expenses and other current assets	(8)	(16)	8	16
Noncurrent receivables	(30)	(77)	30	77
	(2,403)	(2,718)	2,403	2,718
Loans payable	450	561	(450)	(561)
Accounts payable and accrued expenses	618	1,181	(618)	(1,181)
Long-term debt (including current maturities)	4,016	3,517	(4,016)	(3,517)
Finance lease liabilities (including current portion)	785	1,050	(785)	(1,050)
Other noncurrent liabilities	16	162	(16)	(162)
	5,885	6,471	(5,885)	(6,471)
	P3,482	P3,753	(P3,482)	(P3,753)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

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

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P286,457	P286,457	P286,457	P -	P -	P -
Trade and other receivables - net	136,488	136,488	136,488	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	917	91	150	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	284	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,907	41,915	44	82	46	41,743
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	277	79	71	127	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	28,784	29,436	-	379	25,532	3,525
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,423	12,423	6,256	6,167	-	-
Financial Liabilities						
Loans payable	169,492	170,169	170,169	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	173,239	173,239	173,239	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,122	3,122	1,678	1,355	89	-
Long-term debt (including current maturities)	682,804	852,506	80,764	120,716	451,819	199,207
Lease liabilities (including current portion)	142,248	171,108	35,131	31,509	68,450	36,018
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,297	11,308	-	971	9,219	1,118

December 31, 2018	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P243,150	P243,150	P243,150	P -	P -	P -
Trade and other receivables - net	129,893	129,893	129,893	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,545	1,545	1,174	371	-	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	254	254	254	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,994	42,021	60	46	127	41,788
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	226	247	49	77	121	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	21,158	21,454	-	2,870	16,304	2,280
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	14,005	14,005	9,038	4,967	-	-
Financial Liabilities						
Loans payable	184,024	184,876	184,876	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	145,758	145,758	145,758	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,495	2,495	1,929	566	-	-
Long-term debt (including current maturities)	617,615	783,230	89,195	82,220	400,027	211,788
Finance lease liabilities (including current portion)	142,066	169,173	27,042	29,698	76,222	36,211
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	13,217	15,710	-	1,777	9,330	4,603

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

Investment in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality

In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and non-current receivables and deposits.

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

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	Note	2019	2018
Cash and cash equivalents (excluding cash on hand)	7	P283,507	P239,619
Trade and other receivables - net	8	136,488	129,893
Derivative assets	10, 18	1,158	1,545
Financial assets at FVOCI	10, 12	163	206
Financial assets at amortized cost	10, 12	257	226
Noncurrent receivables and deposits - net	18	28,784	21,158
Restricted cash	10, 18	12,423	14,005
		P462,780	P406,652

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

2019						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P283,507	P -	P -	P -	P -	P283,507
Trade and other receivables	136,488	-	12,688	-	-	149,176
Derivative assets	-	-	-	882	276	1,158
Investment in debt instruments at FVOCI	-	-	-	-	163	163
Investment in debt instruments at amortized cost	71	186	-	-	-	257
Noncurrent receivables and deposits	-	28,784	724	-	-	29,508
Restricted cash	6,256	6,167	-	-	-	12,423

2018						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P239,619	P -	P -	P -	P -	P239,619
Trade and other receivables	129,893	-	13,196	-	-	143,089
Derivative assets	-	-	-	1,159	386	1,545
Investment in debt instruments at FVOCI	-	-	-	-	206	206
Investment in debt instruments at amortized cost	40	186	-	-	-	226
Noncurrent receivables and deposits	-	21,158	493	-	-	21,651
Restricted cash	9,038	4,967	-	-	-	14,005

The aging of receivables is as follows:

December 31, 2019	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P63,321	P23,884	P13,826	P101,031
Past due:				
1 - 30 days	8,510	1,972	390	10,872
31 - 60 days	2,415	448	14	2,877
61 - 90 days	853	1,329	23	2,205
Over 90 days	11,695	19,572	924	32,191
	P86,794	P47,205	P15,177	P149,176

December 31, 2018	Trade	Non-trade	Amounts Owed by Related Parties	Total
Current	P52,659	P23,010	P15,218	P90,887
Past due:				
1 - 30 days	8,450	1,048	338	9,836
31 - 60 days	2,800	3,398	9	6,207
61 - 90 days	1,071	1,710	2	2,783
Over 90 days	11,514	21,091	771	33,376
	P76,494	P50,257	P16,338	P143,089

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

The Group's cash and cash equivalents, derivative assets, financial assets at FVOCI, financial assets at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

41. Financial Assets and Financial Liabilities

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

	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P286,457	P286,457	P243,150	P243,150
Trade and other receivables - net	136,488	136,488	129,893	129,893
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	1,545	1,545
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	254	254
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,907	41,907	41,994	41,994
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	257	226	226
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	28,784	28,784	21,158	21,158
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,423	12,423	14,005	14,005
Financial Liabilities				
Loans payable	169,492	169,492	184,024	184,024
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	173,239	173,239	145,758	145,758
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,122	3,122	2,495	2,495
Long-term debt (including current maturities)	682,804	735,657	617,615	623,959
Lease liabilities (including current portion)	142,248	142,248	142,066	142,066
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,297	11,297	13,217	13,217

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

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

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 3.1% to 4.5% and 5.2% to 7.1% as at December 31, 2019 and 2018, respectively. The discount rates used for foreign currency-denominated loans range from 1.6% to 2.0% and 2.5% to 3.0% as at December 31, 2019 and 2018, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments

The Group's derivative financial instruments according to the type of financial risk being managed and the details of freestanding and embedded derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Group enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

December 31, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swaps:				
Notional amount	US\$129	US\$186	US\$133	US\$448
Average strike rate	P52.71 to P55.55	P52.59 to P56.15	P52.59 to P56.15	
Foreign currency and interest rate risk:				
Cross currency swap:				
Notional amount	US\$20	US\$40	US\$280	US\$340
Strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$ -	US\$30	US\$75	US\$105
Interest rate	-	0.44% to 1.99%	0.44% to 1.99%	

December 31, 2018	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Currency forwards:				
Notional amount	US\$15	US\$ -	US\$ -	US\$15
Average forward rate	P54.27	P -	P -	
Call spread swaps:				
Notional amount	US\$22	US\$65	US\$220	US\$307
Average strike rate	P53.87 to P57.37	P53.94 to P57.05	P52.95 to P57.16	
Foreign currency and interest rate risk:				
Cross currency swap:				
Notional amount	US\$ -	US\$ -	US\$120	US\$120
Strike rate	P -	P -	P54.31	
Fixed interest rate	-	-	5.80%	

The following are the amounts relating to hedged items:

December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P200	P -	(P178)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,224	(1,009)	499
Interest rate risk:			
US dollar-denominated borrowings	(7)	5	-

December 31, 2018	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk:			
US dollar-denominated borrowings	P11	P -	(P77)
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	1,020	(538)	419

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
December 31, 2019									
Foreign currency risk: Call spread swaps	US\$448	P231	P356	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P200)	(P435)	P -	P307	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	340	37	1,475	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(1,224)	50	721	65	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	105	7	-	Other noncurrent assets - net and Accounts payable and accrued expenses	7	-	-	-	
	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
December 31, 2018									
Foreign currency risk: Currency forwards	US\$15	P -	P15	Accounts payable and accrued expenses	(P11)	(P4)	P11	P7	Other income (charges) - net
Call spread swaps	307	386	332	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	-	(183)	-	70	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	120	-	377	Other noncurrent liabilities	(1,020)	598	252	-	Interest expense and other financing charges, and Other income (charges) - net

No ineffectiveness was recognized in the 2019 and 2018 consolidated statement of income.

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

	2019		2018	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P538)	P342	P -	P -
Changes in fair value:				
Foreign currency risk	-	(435)	(11)	(187)
Foreign currency risk and interest rate risk	(1,394)	50	(1,020)	598
Interest rate risk	7	-	-	-
Amount reclassified to profit or loss	721	372	263	77
Tax effect	200	(8)	230	(146)
Ending balance	(P1,004)	P321	(P538)	P342

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

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

Interest Rate Swap

As at December 31, 2019 and 2018, the Group has outstanding interest rate swap with notional amount of US\$300. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P730 and P1,104 as at December 31, 2019 and 2018, respectively.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$770 and US\$969 as at December 31, 2019 and 2018, respectively, and with various maturities in 2020 and 2019, respectively. The net negative fair value of these currency forwards amounted to P175 and P297 as at December 31, 2019 and 2018, respectively.

Currency Options

The Group has outstanding currency options with aggregate notional amount of US\$1,278 and US\$370 as at December 31, 2019 and 2018, respectively, and with various maturities in 2020 and 2019. The negative fair value of these currency options amounted to P53 and P10 as at December 31, 2019 and 2018, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2019. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 1,500 metric tons as at December 31, 2018. The negative fair value of these swaps amounted to P10 as at December 31, 2018. The Group has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 12.5 and 17.0 million barrels as at December 31, 2019 and 2018, respectively. The net positive fair value of these swaps amounted to P331 and P489 as at December 31, 2019 and 2018, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2020 and 2019. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 233,000 and 60,000 metric tons as at December 31, 2019 and 2018, respectively. The positive (negative) fair value of these swaps amounted to (P3) and P96 as at December 31, 2019 and 2018, respectively.

Commodity Options

As at December 31, 2018, the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 0.15 million barrels. The positive fair value of these commodity options amounted to P137 as at December 31, 2018. As at December 31, 2019, the Group has no outstanding three-way options entered as hedge of forecasted purchases of crude oil.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$188 and US\$187 as at December 31, 2019 and 2018, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The positive fair value of these embedded currency forwards amounted to P220 and P87 as at December 31, 2019 and 2018, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to (P3,308), P805, and (P3,665) in 2019, 2018 and 2017, respectively (Note 32).

Fair Value Changes on Derivatives

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

	2019	2018
Balance at beginning of year	(P950)	(P3,154)
Net change in fair value of derivatives:		
Designated as accounting hedge	(1,807)	(453)
Not designated as accounting hedge	(3,054)	853
	(5,811)	(2,754)
Less fair value of settled instruments	(3,847)	(1,804)
Balance at end of year	(P1,964)	(P950)

Fair Value Hierarchy

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

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

	December 31, 2019			December 31, 2018		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P1,158	P1,158	P -	P1,545	P1,545
Financial assets at FVPL	-	284	284	-	254	254
Financial assets at FVOCI	972	40,935	41,907	1,019	40,975	41,994
Financial Liabilities						
Derivative liabilities	-	3,122	3,122	-	2,495	2,495

The Group has no financial instruments valued based on Level 3 as at December 31, 2019 and 2018. In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

42. Events after the Reporting Date

Parent Company

a. Commercial Papers Program

On February 6, 2020, the Parent Company filed with the SEC, a registration statement, together with the prospectus, for the planned P60,000 Commercial Papers Program, with an initial offer of P15,000 Series A Commercial Papers with an over subscription option of up to P5,000.

b. Redemption of Series 1 Preferred Shares

On March 12, 2020, the BOD of the Parent Company approved the redemption of all the outstanding Series "1" Preferred Shares (SMCP1) totaling 279,406,667 shares on April 14, 2020. The redemption price shall be the issue price of P75.00 per share, plus any accumulated unpaid cash dividends.

The shares redeemed shall not be considered retired and may be re-issued by the Parent Company at a price to be determined by the BOD. Upon redemption, the shares shall remain listed and trading is merely suspended until re-issued by the Parent Company and upon the approval of the application for lifting of trading suspension by the Parent Company and in accordance with the listing rules of the PSE.

SMFB

- a. On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 fixed rate bonds, consisting of five-year Series A Bonds due 2025 and seven-year Series B Bonds due on 2027.

The bonds were issued and listed in the PDEX on March 10, 2020.

The Series A Bonds and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds will be used to redeem Series 2 preferred shares of SMFB and payment of transaction-related fees, costs and expenses.

- b. On March 10, 2020, SMBIL and San Miguel (China) Investment Company Limited, the shareholders of SMBB, passed a resolution approving the dissolution of SMBB. SMBB has stopped operations and production activities and started the liquidation process from the date of the resolution.

SMYPC and CCEC

On February 1, 2020, a manufacturing plant of SMYPC in Pandacan, Manila was severely damaged by fire. The fire also damaged a portion of Skyway Stage 3 Project which was supposed to be accessible to motorists by April 2020.

Surveyors are in the process of assessing the extent of the loss, following which a claim will be filed for reimbursement with the insurance company.

Effect of Coronavirus Disease 2019 (COVID-19)

There are reported cases of the COVID-19 in the Philippines as of the start of March 2020. A significant increase in COVID-19 cases and imposition by the national and local government of measures to contain its spread in the country will possibly affect the country's economic performance which may impact the Group's businesses and consolidated financial results in 2020. The Group however sees this to be temporary and demand is expected to gradually recover to pre-COVID-19 levels.

The extent of the consequences, including the financial effect to the Group, will depend on certain developments, including the duration of the spread of COVID-19, impact on the Group's customers, suppliers and accessibility and effectiveness of government support programs, all of which are uncertain and cannot be determined as at the date of the issuance of the financial statements. Accordingly, the Group cannot reliably estimate the impact on its financial position and results of operations.

43. Registration with the Board of Investments (BOI)

a. SMC Global

- In 2013, SMCPC and SCPC were granted incentives by the BOI on a pioneer status for six years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987 (Executive Order (EO) No. 226), the rules and regulations of the BOI and the terms and conditions prescribed. On October 5, 2016, BOI granted SCPC's request to move the start of its commercial operation and Income Tax Holiday (ITH) reckoning date from February 2016 to September 2017 or when the first kilowatt-hour (kWh) of energy was transmitted after commissioning or testing, or one month from the date of such commissioning or testing, whichever comes earlier as certified by National Grid Corporation of the Philippines. Subsequently, on December 21, 2016, BOI granted a similar request of SMCPC to move the start of its commercial operation and ITH reckoning date from December 2015 to July 2016, or the actual date of commercial operations subject to compliance with the specific terms and conditions, due to delay in the implementation of the project for reasons beyond its control. SMCPC has a pending request with BOI on the further extension of the ITH reckoning date from July 2016 to September 2017. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.
- On September 20, 2016, LETI (formerly LPPC) was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW CFB Coal-fired Power Plant (Phase II Limay Greenfield Power Plant) on a non-pioneer status. The BOI categorized LETI as an "Expansion" based on the 2014 to 2016 IPP's Specific Guidelines for "Energy" in relation to SCPC's 2 x 150 MW Coal-fired Power Plant (Phase I Limay Greenfield Power Plant). As a registered entity, LETI is entitled to certain incentives that include, among others, an ITH for three years from January 2018 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of LETI's BOI registrations.

In June 2017, the BOI approved the transfer of ownership and registration of Phase II Limay Greenfield Power Plant from LETI to SCPC. On July 13, 2018, BOI granted the request of SCPC to move the start of its commercial operation and ITH reckoning date from January 2018 to March 2018 or actual start of commercial operations, whichever is earlier. The ITH period for Unit 3 and Unit 4 commenced on March 26, 2018.

On August 26, 2015, February 11, 2016 and October 26, 2016, the BOI issued a Certificate of Authority (COA) to SMCPC, SCPC and LETI, respectively, subject to provisions and implementing rules and regulations of EO No. 70, entitled "Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises." The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SMCPC and SCPC for the construction of the power plants were ordered, delivered and completed within the validity period of their respective COAs.

On July 10, 2017, the BOI issued a new COA to SCPC, as the new owner of the Phase II Limay Greenfield Power Plant, subject to provisions and implementing rules and regulations of EO No. 22 (which replaced EO

No. 70), also entitled “Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises.” The COA shall be valid for one year from the date of issuance. All capital equipment, spare parts and accessories imported by SCPC for the construction of the Phase II of the power plant were ordered, delivered and completed within the validity period of the COA.

- SMEC, SPDC and SPPC are registered with the BOI as administrator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for four years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants. Upon expiration of the ITH in 2014, SMEC, SPDC and SPPC are now subject to the regular income tax rate.
- On August 21, 2007, SEPC was registered with the BOI under EO No. 226, as New Domestic Producer of Coal on a Non-pioneer Status.
- On October 12, 2012, MPPCL received the BOI approval for the application as expanding operator of 600 MW Coal-Fired Thermal Power Plant. As a registered entity, MPPCL is entitled to ITH for three years from June 2017 or actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions set forth in the BOI registration. On May 27, 2014, the BOI approved MPPCL’s request to move the start of its commercial operation and the reckoning date of the ITH entitlement from June 2017 to December 2018. On June 17, 2015, the BOI subsequently granted MPPCL’s requests to downgrade the registered capacity from 600 MW to 300 MW.

On December 21, 2015, MPPCL received the BOI approval for the application as new operator of 10MW BESS Project on a pioneer status. The BESS Facility provides 10MW of interconnected capacity and enhances the reliability of the Luzon grid using the Advancion energy storage solution. As a registered entity, MPPCL is entitled to incentives that include, among others, an ITH for six years from December 2018 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration) subject to compliance with the specific terms and conditions of MPPCL’s BOI registration. The ITH period for the 10 MW BESS of MPPCL commenced on December 1, 2018.

- On August 24, 2016, SMCGP Philippines Energy received the BOI approval for the application as new operator of 2 x 20MW Kabankalan Advancion Energy Storage Array on a pioneer status. SMCGP Philippines Energy, a registered entity, is entitled to incentives that include, among others, an ITH for six years from July 2019 to December 2024 or date of actual start of commercial operations, whichever is earlier (but not earlier than the date of registration). On November 27, 2019, SMCGP Philippines Energy filed a request with the BOI to move the reckoning date of the ITH entitlement from July 2019 to July 2021. The said request for extension is still under evaluation by the BOI. The incentives shall be limited to the specific terms and conditions of SMCGP Philippines Energy’s BOI registration.
- On April 24, 2019, MPGC was registered with Freeport Area of Bataan (FAB) as engaged in business of producing and generating electricity, processing fuels alternative for power generation, among others. As FAB enterprise, MPGC will operate a 4 x 150 MW power plant. As such, FAB granted MPGC certain incentives that include, among others, an ITH for four years for each unit effective on the committed date of start of commercial operations or actual date of start of commercial operations, whichever is earlier.

- On November 28, 2019, the BOI approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. Each registered site was granted with certain incentives including ITH, among others.

License Granted by the ERC

On August 4, 2008, August 22, 2011 and August 24, 2016, MPPCL, SMELC and SCPC, respectively, were granted a RES License by the ERC pursuant to Section 29 of the EPIRA, which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of five years from the time it was granted and renewable thereafter.

On July 26, 2016, the ERC approved the renewal of MPPCL's RES License, valid from August 2, 2016 to August 1, 2021.

On August 19, 2016, the ERC approved the renewal of SMELC's RES License for another five years from August 22, 2016 up to August 21, 2021.

b. SMFB

SMFI

SMFI is registered with the BOI for certain feedmill, poultry, meats and ready-to-eat projects. In accordance with the provisions of EO No. 226, the projects are entitled, among others, to the following incentives:

- *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Registration No. 2008-192. The Sumilao Hog Project was entitled to ITH for a period of six years, extendable under certain conditions to eight years.

SMFI's six-year ITH for the Sumilao Hog Project ended on January 31, 2015. SMFI's application for one year extension of ITH from February 1, 2015 to January 31, 2016 was approved by the BOI on May 20, 2016. Application for the second year extension of ITH was no longer pursued by SMFI.

Notwithstanding the expiration of ITH benefit, SMFI is still required to continue the submission of annual reports to the BOI for a period of five years from the last year of ITH availment pursuant to BOI Circular No. 2014-01. SMFI's last availment of ITH for this project was in 2016.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-074. The Bulacan Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years. The ITH period of the project commenced on July 1, 2018.
- *New Producer of Animal and Aqua Feeds.* The Sta. Cruz, Davao feedmill project (Davao Feedmill Project) was registered on a non-pioneer status on April 14, 2016 under Registration No. 2016-073. The Davao Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years.

On May 24, 2019, BOI approved SMFI's request to move Davao Feedmill Project's start of commercial operations and ITH reckoning date to April 2019. The ITH period of the project commenced on April 1, 2019.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The Mandaue, Cebu feedmill project (Cebu Feedmill Project) was registered on a non-pioneer status on November 10, 2015 under Registration No. 2015-251. The Cebu Feedmill Project is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years.

On May 24, 2019, BOI approved SMFI's request to move Cebu Feedmill Project's start of commercial operations and ITH reckoning date to December 2019.

- SMFI has the following poultry projects registered with the BOI under E.O. No. 226.
 - a. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Sta. Cruz, Davao poultry project (Davao Poultry Project) was registered on a non-pioneer status on February 3, 2017 under Registration No. 2017-035.
 - b. *New Producer of Whole Dressed Chicken and Further Processed (Marinated, Deboned) Chicken Parts.* The Pagbilao, Quezon poultry project (Quezon Poultry Project) was registered on a non-pioneer status on March 30, 2017 under Registration No. 2017-082.

Due to certain developments which were significantly different from the original project plans, SMFI submitted on September 19, 2018 a letter requesting cancellation of the registrations. On October 10, 2018, the BOI approved SMFI's request to cancel the registrations of the above-mentioned poultry projects.

- *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Food Service project (Ready-to-Eat Project) was registered on a non-pioneer status on December 13, 2017 under Registration No. 2017-335. The Ready-to-Eat Project is entitled to ITH for four years from March 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the Authority of Freeport Area of Bataan (AFAB) as a Manufacturer of Feeds for Poultry, Livestock and Marine Species. AFAB Certificate of Registration is valid for a period of one year from issuance and renewable annually subject to qualifications as determined by AFAB.

The Bataan Feedmill Project was registered with AFAB on January 6, 2017 under Registration No. 2017-057. Thereafter, the project's AFAB registration has been renewed accordingly as follows:

Registration Renewal Date	Certificate of Registration No.	Annual Period Covered
March 6, 2018	2018-096	2018
February 14, 2019	2019-079	2019
December 10, 2020	2020-047	2020

Under the terms of SMFI's AFAB registration, Bataan Feedmill Project is entitled to incentives which include, among others, ITH for four years from May 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH period of the project commenced on May 1, 2018.

PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in EO No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH period of the project commenced on December 1, 2017.

SMMI

SMMI was registered with the BOI under Registration No. 2016-035 on a non-pioneer status as an Expanding Producer of Wheat Flour and its By-Product (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in EO No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On October 25, 2017, the BOI approved SMMI's request to adjust ITH reckoning date to December 2018 or actual start of commercial operations, whichever is earlier.

On July 25, 2019, the BOI approved SMMI's subsequent request to further adjust the ITH reckoning date to July 2019 or actual start of commercial operations, whichever is earlier. The ITH period of the project commenced on December 1, 2019.

Golden Bay Grain Terminal Corporation (GBGTC)

GBGTC was registered with the BOI under Registration No. 2012-223 on a non-pioneer status as a New Operator of Warehouse for its grain terminal project in Mabini, Batangas on October 19, 2012.

Under the terms of GBGTC's BOI registration and subject to certain requirements as provided in EO No. 226, GBGTC is entitled to incentives which include, among others, ITH for a period of four years from July 2013 until June 2017.

Pursuant to BOI Circular No. 2014-01, GBGTC is still required to continue submission of annual reports to the BOI for a period of five years from the last year of ITH availment. GBGTC's last availment of ITH for this project was in 2017.

c. Petron

Refinery Master Plan 2 (RMP-2) Project

On June 3, 2011, the BOI approved Petron's application under the Downstream Oil Industry Deregulation Act (RA No. 8479) as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

- ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.
- Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.
- Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.
- Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- Exemption from real property tax on production equipment or machinery.
- Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016 and Petron availed of the ITH in 2017 and 2018. No availment was made in 2019.

On August 19, 2019, the BOI approved Petron's application for the ITH incentive. The approval also covers the claim for income tax exemption in Petron's 2018 Income Tax Return, subject to adjustment, if any, after the completion of the audit by the BIR.

Certificates of entitlement have been timely obtained by Petron to support its ITH credits in 2018 and 2017.

d. SMCSLC

SMCSLC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *Operation of Brand New Domestic/Inter-Island Shipping Vessel (M/T SL Beluga).* The project was registered on February 20, 2013, where SMCSLC is entitled to ITH for six years from February 2013 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentive shall be limited only to the revenue generated by the registered project.

- *Operation of New Domestic/Inter-Island Shipping Operator Vessel (M/V SL Venus 8).* The project was registered on February 27, 2014, where SMCSLC is entitled to ITH for four years from February 2014 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% incentive shall be limited only to the sales/revenue generated by the registered project.
- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The president, general manager and treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Additional Deduction for Labor Expense.* For the first five years from registration, SMCSLC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, SMCSLC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

e. SLHBTC

In 2014, SLHBTC's registration with the BOI as an oil terminal for storage and bulk marketing of petroleum products in its Main Office located at Tondo, Manila was granted with Registration No. 2013-068. In 2015, SLHBTC also registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations, whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier, but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Tondo and Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

- ii. *Additional Deduction from Taxable Income.* SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.
- iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment.* Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:
 - they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
 - the equipment is reasonably needed and will be exclusively used in the registered activity; and
 - prior BOI approval is obtained for the importation as endorsed by the DOE.
- iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.
- v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.
- vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:
 - at least 70% of production is imported;
 - such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
 - all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.
- vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.
- viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.
- ix. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operation and/or date of registration.

f. Molave Tanker Corporation (MTC)

MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *Operation of Oil Tanker Vessel (MTC Apitong, 2,993GT).* The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT).* The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals.* This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional Deduction for Labor Expense.* For the first five years from registration, MTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

g. Balyena Tanker Corporation (BTC)

BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT)*. The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT)*. The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Cargo Vessel - BTC Soya, 2,426 GT)*. The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Cargo Vessel - BTC Cassava, 2,426 GT)*. The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

- iii. *Importation of Consigned Equipment.* For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories.* For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional deduction for labor expense.* For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*
- vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

h. Narra Tanker Corporation (NTC)

NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT).* The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Haribon, 2,467 GT).* The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Falcon, 2,467 GT).* The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Heron, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Flamingo, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.
- iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.
- iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.
- v. *Additional deduction for labor expense*. For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.
- vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies*.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

i. SMNCI

On January 15, 2018, SMNCI was registered with the BOI as a new producer of cement on a non-pioneer status. SMNCI's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

- i. ITH for four years from January 2023 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.
- ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 22 and its Implementing Rules and Regulation.

- iii. Additional deduction from taxable income of 50% of wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the requirements as stated in the BOI Certificate.
- iv. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.
- v. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.
- vi. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from date of registration.
- vii. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.
- viii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

44. Other Matters

a. Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

▪ SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common shares from the increase in SMFB's capital stock; and, (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

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

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

- Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

In 2004, the Parent Company was assessed by the BIR of excise taxes on “San Mig Light” which at that time was one of its products. These assessments were contested by the Parent Company but nonetheless made the corresponding payments. Consequently, the Parent Company filed three (3) claims for refund for overpayments of excise taxes with the BIR which were then elevated to the Court of Tax Appeals (CTA) by way of petition for review. The details of the such claims for refunds are as follows:

- (a) first claim for refund of overpayments for the period from February 2, 2004 to November 30, 2005 was filed on January 31, 2005 with the CTA First Division docketed as CTA Case No. 7405;
- (b) second claim for refund of overpayments for the period of December 31, 2005 to July 31, 2007 was filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7708; and
- (c) third claim for refund of overpayments for the period of August 1, 2007 to September 30, 2007 filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7953.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on “San Mig Light” at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

On the first claim for refund. On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter’s claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company’s counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 for the period of December 1, 2005 to July 31, 2007, and P782 for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the Court of Tax Appeals, the Parent Company filed a motion for execution in CTA Cases Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 representing refund of excess taxes erroneously collected for the period of February 2, 2004 to November 30, 2005; and another and separate motion for execution in CTA Case No. 7708 on the final judgment of P926 for the period of December 1, 2005 to July 31, 2007. On April 4, 2019, the Writ of Execution in CTA Case No. 7708 was issued by the Court and subsequently served on the BIR Commissioner, and on April 11, 2019, the Writ of Execution in CTA Case No. 7405 (consolidated with CTA Cases Nos. 7052 and 7053) was also issued and served on the Commissioner.

As at March 12, 2020, the application for the issuance of tax credit certificate was already completed and ready for submission to the BIR.

On the second claim for refund. On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the Parent Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

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

Filed by SMB

SMB filed eleven claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

- (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);
- (b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);
- (c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

- (d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);
- (e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);
- (f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 19, 2014);
- (g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 22, 2015);
- (h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 28, 2016);
- (i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - First Division docketed as CTA Case No. 9743 (December 29, 2017);
- (j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 - Third Division docketed as CTA Case No. 10000 (December 27, 2018); and
- (k) eleventh claim for refund of overpayments for the period from January 1, 2018 to December 31, 2018 - First Division docketed as CTA Case No. 10223 (December 6, 2019).

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P828 and the amount of P106 to SMC. The BIR appealed to the CTA *En Banc* which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. The Writ of Execution was issued on March 18, 2019 by the CTA Special Second Division in the amount of P828. SMB filed an application for the issuance of a Tax Credit Certification with the BIR on August 22, 2019.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division, ordering the BIR to refund the amount of P731. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari. SMB filed an application for the issuance of a Tax Credit Certificate in the amount of P731. On November 6, 2019, the BIR issued a Tax Credit Certificate No. TCC201600000202 in favor of SMB (Note 32).

CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the Court of Tax Appeals, SMB filed a motion for execution with the CTA. On May 30, 2019, CTA Special Third Division issued a Writ of Execution in the amount of P699 in favor of SMB. SMB filed an application for Tax Credit Certificate on August 5, 2019. The BIR issued Tax Credit Certificate No. TCC201600000204 in favor of SMB on November 13, 2019 (Note 32).

CTA Case No. 8591 was decided in favor of SMB by the CTA Second Division and CTA *En Banc*. The BIR was ordered to refund to SMB the amount of P740. The BIR elevated the case to the Supreme Court by way of petition for review (docketed as G.R. No. 232776), where it was denied on February 21, 2018. The BIR filed a Motion for Reconsideration, which was denied with finality on July 23, 2018. SMB filed a motion for the execution of the decision with the CTA Second Division.

The CTA Second Division issued a Writ of Execution in the amount of P740 on November 13, 2019. SMB filed an application for Tax Credit Certificate with the BIR in January 2020.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761, which was appealed by the BIR to the CTA *En Banc*. On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. On March 8, 2019, the CTA *En Banc* denied the Commissioner's Motion for Reconsideration on its Decision dated October 11, 2018. Subsequently, on June 6, 2019, the Commissioner appealed to the Supreme Court by way of a Petition for Review the Decision dated October 11, 2018 and Resolution dated March 8, 2019 of the CTA *En Banc*. The case is still pending in the Supreme Court.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the Commissioner filed a motion for reconsideration on the aforesaid decision which was denied. Subsequently,

on March 25, 2019, the BIR Commissioner filed with the Supreme Court a Motion for Extension of Time to file a Petition for Review on the Decision dated September 19, 2018 and Resolution dated January 24, 2019 of the CTA *En Banc*. On May 16, 2019, the Commissioner filed a Manifestation with the Supreme Court that he opted not to file a Petition for Review on Certiorari but will pursue the case in the CTA Third Division to which it was ordered remanded by the CTA *En Banc*. On the basis of the Commissioner's aforesaid Manifestation, the Supreme Court, in a Resolution dated January 9, 2020, declared the case before it closed and terminated. SMB will now pursue CTA Case No. 8955 in the CTA Third Division to which it was remanded by the CTA *En Banc*.

In CTA Case No. 9223, the CTA Third Division, on April 11, 2019, rendered its Decision partially granting SMB's Claim for Refund to the extent of P56 but disallowing and denying its Claim for Refund of excess excise taxes paid on "San Mig Light" (SML) in kegs in the amount of P5. On May 10, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P5, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P5 in addition to, and apart from, the amount of P56 which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA Third Division.

In CTA Case No. 9513, the CTA Second Division rendered its Decision on June 13, 2019, partially granting SMB's Claim for Refund to the extent of P44 but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P4. On June 26, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P4, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P4 in addition to, and apart from, the amount of P44 which was ordered refunded to it. On September 17, 2019, the CTA Second Division issued a Resolution denying SMB's Motion for Partial New Trial. On October 15, 2019, SMB elevated the Decision dated June 13, 2019 and Resolution dated September 17, 2019 of the CTA Second Division to the CTA *En Banc* by way of a Petition for Review. In the meantime, on October 24, 2019, the Commissioner also filed with the CTA *En Banc* a Petition for Review on the same Decision of the CTA Second Division. The Petitions for Review of SMB and the Commissioner are presently pending in the CTA *En Banc*.

On October 14, 2019, in CTA Case No. 9743, the CTA First Division rendered its Decision partially granting SMB's Claim for Refund to the extent of P28 but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P3. On October 29, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P3, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P3 in addition to, and apart from, the amount of P28 which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA First Division.

In CTA Case No. 10000, on March 15, 2019, the BIR Commissioner filed his Answer to the Petition for Review. The case was scheduled for pre-trial conference on June 25, 2019, and thereafter, the presentation of SMB's witnesses was held on August 15, 2019 and September 17, 2019. On September 25, 2019, SMB submitted its Formal Offer of Evidence. The aforesaid Formal Offer of Evidence is still under consideration by the Court.

On February 20, 2020, the BIR Commissioner filed his Answer to the Petition for Review in CTA Case No. 10223. Thereafter, the case was set for Pre-Trial on March 26, 2020.

Filed by GSMI

GSMI filed two claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review as follows:

- (a) CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 in Case No. 8953, and P133 in Case No. 8954, or in the total amount of P715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence. The CTA admitted all of GSMI's evidence while the BIR's Formal Offer of Evidence and GSMI's Comment thereto are still under consideration of the CTA.

These cases are still pending with the CTA.

- (b) CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2019, the CTA denied the GSMI's Claim for Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said decision, which is still pending resolution.

The aforementioned assessments and collection cases arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

- Deficiency Tax Liabilities

IBI

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment (FDDA) issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motion for Reconsideration, which were denied by CTA *En Banc* in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Review on Certiorari on September 7, 2018 docketed as G.R. Nos. 241147-48 and was raffled to the First Division of the Supreme Court. On the other hand, the BIR's Petition was docketed as G.R. Nos. 240651 and 240665 and was raffled to the Second Division of the Supreme Court.

On January 16, 2019, the Supreme Court denied IBI's Petition to which a Motion for Reconsideration was filed by IBI on April 5, 2019.

On September 3, 2019, IBI filed a Motion to Consolidate G.R. Nos. 241147-48 and G.R. Nos. 240651 and 240665.

On October 3, 2019, IBI received a Resolution dated June 26, 2019 denying its Motion for Reconsideration. IBI also filed a Manifestation on October 21, 2019 informing the Court that in view of its payment of P270 on August 26, 2016, IBI shall be deemed to have fully satisfied the judgment award in accordance with the CTA First Division's Decision dated August 14, 2015.

On February 4, 2020, the IBI received a Resolution dated October 4, 2019 denying its Motion to Consolidate.

On March 11, 2019, the Supreme Court issued a Resolution requiring IBI to file its comment to the BIR's Petition. IBI filed its Comment on June 17, 2019.

On October 21, 2019, IBI filed a Manifestation informing the Supreme Court that the issuance of its Resolution dated June 26, 2019 in G.R. Nos. 241147-48 rendered the BIR's Petition as moot and academic. The case is still pending with the Supreme Court for resolution.

In its Manifestation and Motion dated January 28, 2020 filed before the Supreme Court, the BIR confirmed the execution of a Compromise Agreement in connection with its pending Petition for Review and sought permission to be allowed to withdraw its Petition docketed as G.R Nos. 240651 and 240665.

The case is still pending with the Supreme Court for resolution.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc* (docketed as CTA EB No 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic tax, in the amount of P110, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA *En Banc* did not consider the payment of basic deficiency tax of P110 for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 in light of the amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA *En Banc* has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR. As at December 31, 2018, the Group recognized a provision amounting to P52.

Noting the BIR's failure to file its Comment/Opposition, the Court issued a Resolution dated April 17, 2019, which IBI received on May 9, 2019, denying the BIR's Motion for Partial Reconsideration of the CTA *En Banc* Decision promulgated on September 18, 2018 and partially granting the Motion for Reconsideration filed by IBI of said CTA *En Banc* Decision

IBI and the BIR filed their respective Petitions for Review with the Supreme Court docketed as G.R. Nos. 246911 and 246865, respectively. Both Petitions were consolidated by the Supreme Court through a Resolution dated July 1, 2019.

IBI filed a Manifestation and Motion on November 27, 2019 praying for the deferment of the resolution of the consolidated Petitions in view of the pending compromise settlement of the parties. On December 4, 2019, IBI received the BIR's Manifestation informing the Supreme Court that it received a Proposal for Compromise/Amicable Settlement from IBI.

On December 27, 2019, IBI filed a Manifestation informing the Supreme Court that on December 5, 2019 and December 16, 2019, IBI and the BIR, respectively, executed a Compromise Agreement to amicably settle IBI's deficiency taxes for taxable year 2010. In its Manifestation dated February 26, 2020, the BIR confirmed receipt of payment pursuant to the Compromise Agreement executed between the IBI and the BIR. The case is still pending with the Supreme Court for resolution.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax (DST) and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. In the meantime, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending at the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three Divisions of the Court.

On March 2, 2020, the CTA First Division promulgated its Decision partially granting IBI's Petition for Review. The assessment for deficiency income tax, VAT, DST and compromise penalty are cancelled and set aside. However, the assessment for deficiency expanded withholding tax is affirmed, and IBI was ordered to pay deficiency expanded withholding tax including interest and surcharges amounting to P5.

SMFI

- i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. Commissioner of Internal Revenue (CIR) CTA Case 9046, First Division

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a FDDA was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand/Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand/Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

On August 6, 2019, the CTA *En Banc* rendered its decision denying the Petition for Review filed by the BIR. The Decision affirmed the withdrawal and cancellation of the assessment issued against SMFI covering the period January 1, 2010 to August 31, 2010.

The BIR filed a Motion for Reconsideration of the decision of the CTA *En Banc* on September 6, 2019. SMFI's Comment on the Motion for Reconsideration of the BIR was filed on October 18, 2019.

In a Resolution dated January 7, 2020, the CTA *En Banc* has denied the Motion for Reconsideration filed by the BIR. A Petition for Review on Certiorari dated March 2, 2020 was filed by the BIR with the Supreme Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA. First Division and docketed as CTA Case No. 9241. On September 2, 2016, Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

On September 28, 2018, the case was transferred to the Third Division of the CTA pursuant to Administrative Circular No. 02-2018.

On October 2, 2019, the CTA Third Division rendered its decision granting SMFI's Petition for Review and cancelling the deficiency income tax and VAT assessment issued by the BIR.

On November 4, 2019, the BIR filed a Motion for Reconsideration of the decision of the CTA Third Division. SMFI filed a Comment on the Motion for Reconsideration on November 29, 2019.

On a Resolution dated March 2, 2020, the CTA Third Division has denied Motion for Reconsideration filed by the BIR.

iii. SMFI vs. Office of the City Treasurer, City of Davao

On August 23, 2018, SMFI filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 209. On November 12, 2018, the Company filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 210. Both petitions were filed to appeal the joint decision of the Regional Trial Court of Davao City dismissing SMFI's appeal from the denial and inaction of the Office of the City Treasurer of Davao City on the protest against the assessment of permit fee to slaughter.

SMFI protested the assessment of the City Treasurer of Davao City imposing permit fee to slaughter against its dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District both located in Davao City.

It is SMFI's position that Section 367 (a) of the 2005 Revenue Code of the City of Davao (Revenue Code of Davao City) on the imposition of permit fee to slaughter is applicable only to slaughterhouses operated by the City Government of Davao City. SMFI's dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District, being privately owned and operated slaughterhouses is beyond the coverage of Section 357 (a) of the Revenue Code of Davao City. In addition, given that SMFI is already paying ante and post mortem fees for the slaughter of poultry products pursuant to Section 367 (d) of the same Revenue Code, the assessment of permit fee to slaughter would constitute double taxation.

By the order of CTA dated September 24, 2018, Case CTA AC 209 was transferred to the First Division of the CTA. In a resolution dated October 25, 2018 CTA First Division resolved to give due course to SMFI's Petition for Review. SMFI submitted the required memorandum on December 19, 2018. And on March 28, 2019, CTA declared Case AC No. 209 as submitted for decision.

In a resolution dated February 1, 2019 on SMFI's Petition for Review on CTA Case AC No. 210, the CTA First Division required the parties to submit the respective Memorandum on this case. On May 7, 2019, SMFI submitted the required Memorandum, awaiting the court's decision.

▪ Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of

the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on certiorari dated December 5, 2012. On July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR. The Supreme Court issued its Entry of Judgment declaring that its decision dated July 9, 2018 in Petron's favor already attained finality on April 1, 2019. This case would now be considered closed and terminated.

- Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292. The cases were pending as at December 31, 2019. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering Petron to file its comment on plaintiffs' petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continues.

- Lease Agreements with PNOC

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic

renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. Petron also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13 2019, the trial court granted Petron's motion for summary judgment and ordered: (i) the rescission of the Deeds of Conveyance dated 1993 relating to Petron's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to Petron of all such properties, and (iii) the payment by Petron to PNOC of the amount of P143, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. Petron also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to Petron all lease payments the latter had paid to PNOC since 1993. The motions for reconsideration were pending as at March 12, 2020.

Following the trial court's denial of PNOC's motion for reconsideration, PNOC filed a notice of appeal to the Court of Appeals, a copy of which was received by Petron on March 9, 2020.

- Swakaya Sdn. Bhd. (Swakaya) Dispute

In 2015, a disputed trade receivable balance of RM25 (P307) in favor of POMSB was reclassified to long-term receivables.

The dispute arose from the supply by POMSB of diesel to Swakaya. In 2013, POMSB entered into an agreement with Swakaya to supply it with diesel. Swakaya had agreements to supply power plants operator with diesel for power generation. Later, due to a government investigation, Swakaya's bank accounts were frozen and that affected its ability to supply the power plants. Swakaya and the power plants operator agreed to ask POMSB to supply the power plants operator directly and for the said operator to pay POMSB directly for diesel supplied. This arrangement commenced. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank (SDB) and the power plants operator was placed under an obligation to SDB to remit payments due to Swakaya to SDB. Due to some administrative

issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. SDB then, despite its earlier promise to POMSB to remit the moneys to POMSB once POMSB establishes that the payment was for a direct supply to the power plants operator, refused and utilized the moneys to set off against Swakaya's debt to the bank. The sum involved was RM25 (P307). POMSB sued Swakaya and SDB for, among others, breach of trust. Swakaya did not appear in court and judgment was awarded in favor of POMSB and against Swakaya.

In April 2016, the Kota Kinabalu High Court ruled in favor of the POMSB and a judgment sum inclusive of interest amounting to RM28 (P343) was deposited to its solicitor account in August 2016. SDB subsequently filed an appeal to Court of Appeal.

In May 2017, the Court of Appeal re-affirmed the decision of the Kota Kinabalu High Court and dismissed SDB's appeal with costs RM0.015 (P0.20) awarded to POMSB. In June 2017, SDB filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal, which was granted in April 2018. After hearing the appeal, in February 2020, the Federal Court allowed the appeal by SDB and set aside the Court of Appeal's decision, POMSB is exploring the possibility of a review of the said Federal Court decision.

Considering the length of time of litigation matters, a discount of RM8 (P95) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 (P20) was unwound this year and recognized as interest income.

The balance amounting to RM23 (P282) was provided full impairment in 2019.

- Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour TRO be issued against

PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016 (the "June 27, 2016 RTC Order"), the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders". The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 ("CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the Supreme Court praying for the reversal and nullification of the CA Decision. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution") due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court's discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the Supreme Court in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgment issued by the Supreme Court on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an Order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "First CA Resolution"), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without any restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in 2022.

- Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals (CA) affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. The Supreme Court denied GSMI's Motion for Reconsideration with finality, as well as GSMI's Motion to Refer to its Motion for Reconsideration to the Supreme Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the "Manifestation") and invoked the case of *League of Cities vs. Commission of Elections* (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the Supreme Court *En Banc* issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter's resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI's Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten (10) days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

This case is still pending with the Supreme Court *En Banc*.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduay Distillers, Inc. (TDI) filed with the RTC, arising from TDI's distribution and sale of its gin product bearing the trademark "Ginebra Kapitan" and use of a bottle which general appearance was nearly identical and confusingly similar to GSMI's product. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word 'GINEBRA' in its gin products and that GSMI's 'Ginebra San Miguel' had already obtained, over the years, a considerable number of loyal customers who associate the mark 'GINEBRA' with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in 'Ginebra Kapitan' is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI 'has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel'".

TDI filed separate Petitions for Review on Certiorari with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court on April 18, 2016.

On October 26, 2016, GSMI filed its Comment TDI's Petition for Review on Certiorari.

These consolidated cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 covering gin with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for

use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOP HL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin"; (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like "GINEBRA KAPITAN"; and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

On July 23, 2014, the Court of Appeals reversed and set aside the IPOP HL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comments on TDI's Petition for Review on Certiorari.

This case is still pending with the Supreme Court.

- Imported Industrial Fuel Oil

SLHBTC has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 or one and one-half times of the assessed amount of P82 representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

By Order dated September 25, 2018, the case was transferred to the CTA First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As at December 31, 2019, the case is still pending with the CTA.

- Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount US\$60. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of RA No. 3019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

- Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignation without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignation.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignation filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignation case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this refusal, the resolution of the Motion for Reconsideration is pending to date.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at December 31, 2019 and 2018, the total amount consigned with the RTC Pasig is P491, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position (Note 18).

- Temporary Restraining Order (TRO) Issued to Meralco

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction ("Petition") filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an order treating the Counter-Petition as in the nature of a third-party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the Supreme Court extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a resolution dated April 22, 2014, the Supreme Court extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the Supreme Court.

- ERC Voiding WESM Prices

Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "March 3, 2014 Order"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the ERC order. Other generators also requested the Supreme Court to stop the implementation of the ERC order.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 27 and May 9, 2014 (the "2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL, declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC and SPPC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

The intervenors thereafter filed petitions for certiorari before the Supreme Court, First Division. Each were denied by the Supreme Court through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the Court of Appeals committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322, plus interest.

b. EPIRA

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2019.

- c. On May 10, 2019, the Parent Company, through FSCII, a subsidiary of SMELL, signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. from entities controlled by Lafarge Holcim which was subject to the PCC review and approval.

- d. *Commitments*

The outstanding purchase commitments of the Group amounted to P113,517 as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects is approximately P221,507 as at December 31, 2019.

- e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar accounts of foreign subsidiaries, associates and joint ventures to Philippine peso were closing rates of P50.64 and P52.58 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P51.79, P52.69 and P50.40 in 2019, 2018 and 2017, respectively, for income and expense accounts.

- f. Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

COVER SHEET

For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	2	7	7		
---	---	---	---	---	---	---	---	---	--	--

COMPANY NAME

S	A	N		M	I	G	U	E	L		C	O	R	P	O	R	A	T	I	O	N		A	N	D				
S	U	B	S	I	D	I	A	R	I	E	S																		

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

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

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

--

Secondary License Type, If Applicable

--

COMPANY INFORMATION

Company's email Address

N/A

Company's Telephone Number/s

8632-3000

Mobile Number

N/A

No. of Stockholders

35,207

Annual Meeting (Month / Day)

Second Tuesday of June

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Ms. Bella O. Navarra

Email Address

N/A

Telephone Number/s

8632-3000

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

No. 40 San Miguel Avenue, Mandaluyong City
--

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

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



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

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management.

- Map of the Conglomerate
- Supplementary Schedules of Annex 68-J

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

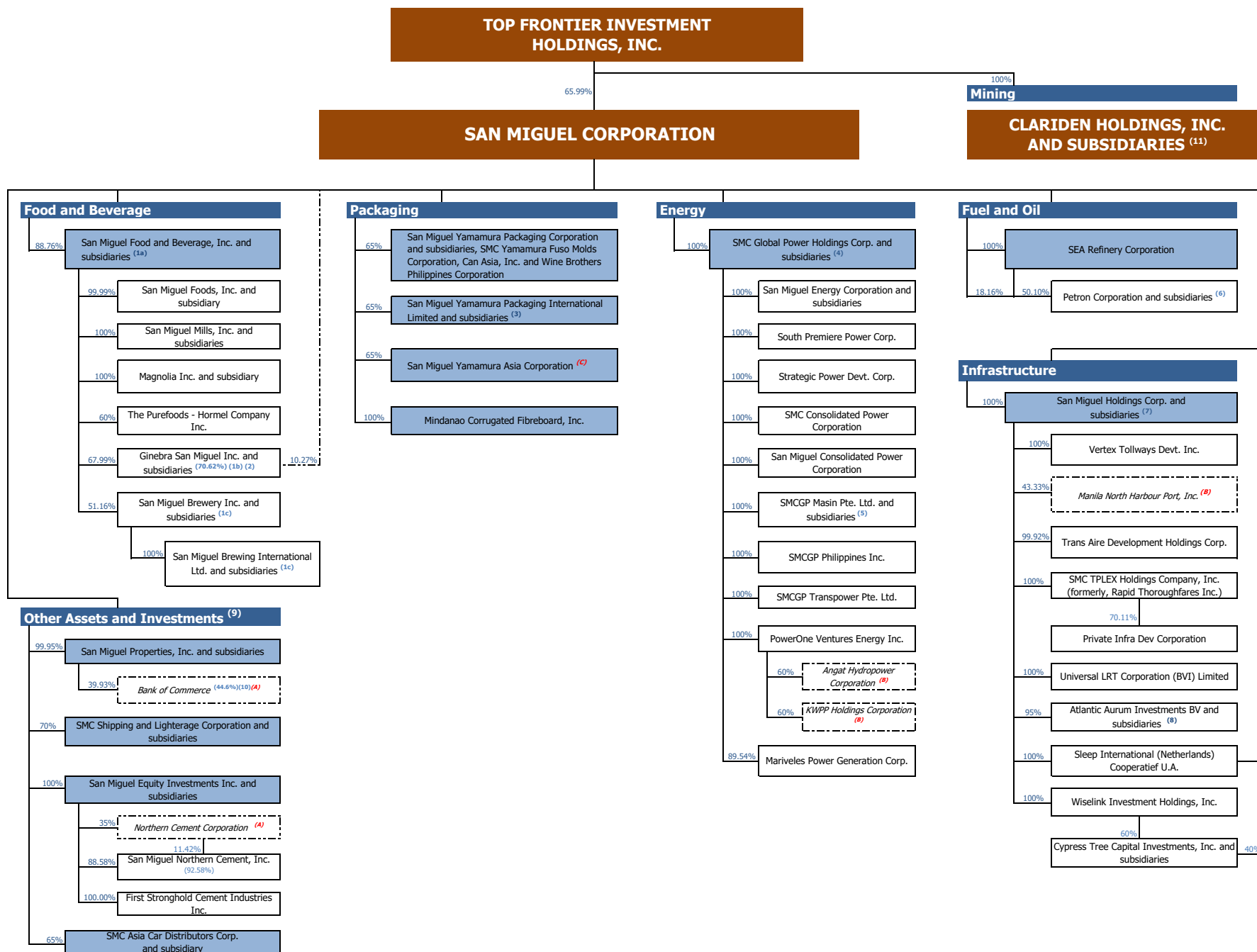
Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION GROUP STRUCTURE *



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

Note:

(A) Associate

(B) Joint Venture

(C) Merged to San Miguel Yamamura Packaging Corporation effective March 1, 2020.

I. Subsidiaries

1. San Miguel Food and Beverage Inc. (formerly San Miguel Pure Foods Company Inc.) subsidiaries also include (a) San Miguel Super Coffeemix Co., Inc., PT San Miguel Foods Indonesia (formerly PT San Miguel Pure Foods Indonesia) and San Miguel Foods International, Limited (formerly San Miguel Pure Foods International, Limited) and subsidiary, San Miguel Foods Investment (BVI) Limited (formerly San Miguel Pure Foods Investment (BVI) Limited) and subsidiary, San Miguel Pure Foods (VN) Co., Ltd.; (b) Ginebra San Miguel Inc. subsidiaries including Distileria Bago, Inc., East Pacific Star Bottlers Phils Inc., Ginebra San Miguel International, Ltd., GSM International Holdings Limited, Global Beverage Holdings Limited and Siam Holdings Limited.; and (c) San Miguel Brewery Inc. subsidiaries including Iconic Beverages, Inc. and Brewery Properties Inc. and subsidiary and San Miguel Brewing International Ltd. and subsidiaries including, San Miguel Brewery Hong Kong Limited and subsidiaries, PT. Delta Jakarta Tbk. and subsidiary, San Miguel (Baoding) Brewery Company Limited, San Miguel Brewery Vietnam Limited, San Miguel Beer (Thailand) Limited and San Miguel Marketing (Thailand) Limited.
2. San Miguel Food and Beverage Inc. owns 67.99% of issued and outstanding common and preferred shares of Ginebra San Miguel Inc. San Miguel Corporation owns the total issued and outstanding preferred shares of Ginebra San Miguel Inc. equivalent to direct ownership of 10.27%. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. Effectively, San Miguel Corporation owns 70.62% of total issued and outstanding common and preferred shares of Ginebra San Miguel Inc.
3. San Miguel Yamamura Packaging International Limited subsidiaries include San Miguel Yamamura Phu Tho Packaging Company Limited, San Miguel Yamamura Glass (Vietnam) Limited, San Miguel Yamamura Haiphong Glass Company Limited, Zhaoqing San Miguel Yamamura Glass Company Limited, Foshan San Miguel Yamamura Packaging Company Limited, San Miguel Yamamura Packaging and Printing Sdn. Bhd., San Miguel Yamamura Woven Products Sdn. Bhd. and subsidiary, Packaging Research Centre Sdn. Bhd., San Miguel Yamamura Plastic Films Sdn. Bhd., San Miguel Yamamura Australasia Pty Ltd and subsidiaries including SMYC Pty Ltd (formerly Cospak Pty Limited) and subsidiary, Foshan Cospak Packaging Co. Ltd., SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Ltd (New Zealand), SMYBB Pty Ltd, SMYJ Pty Ltd, and Wine Brothers Australasia Pty Ltd.
4. SMC Global Power Holdings Corp. subsidiaries also include San Miguel Electric Corp., SMC PowerGen Inc., SMC Power Generation Corp., Albay Power and Energy Corp., Lumiere Energy Technologies Inc. (formerly Limay Premiere Power Corp.), Universal Power Solutions, Inc. (formerly Limay Power Generation Corporation) and Prime Electric Generation Corporation and subsidiary, Alpha Water and Realty Services, Corp.
5. SMCGP Masin Pte. Ltd. subsidiaries include Strategic Holdings B.V., SMCGP Masinloc Partners Company Limited, SMCGP Philippines Energy Storage Co. Ltd., SMCGP Masinloc Power Company Limited, Transpower Holdings B.V., and Masinloc Power Partners Co. Ltd. SMCGP Masin Pte. Ltd. is in the process of liquidation as of December 31, 2019. Strategic Holdings B.V. and Transpower Holdings B.V. were liquidated effective March 31, 2020 and the deregistration process was completed on April 14, 2020.
6. Petron Corporation subsidiaries include Petron Marketing Corporation, Petron Freeport Corporation, Petrogen Insurance Corporation, Overseas Ventures Insurance Corporation Ltd., Petrofuel Logistics, Inc. (formerly Limay Energen Corporation), New Ventures Realty Corporation and subsidiaries, Petron Singapore Trading Pte., Ltd., Petron Global Limited, Petron Oil & Gas International Sdn. Bhd. and subsidiaries including Petron Fuel International Sdn. Bhd., Petron Oil (M) Sdn. Bhd. and Petron Malaysia Refining & Marketing Bhd. (collectively Petron Malaysia), Petron Finance (Labuan) Limited and Petrochemical Asia (HK) Limited and subsidiaries.
7. San Miguel Holdings Corp. subsidiaries include Optimal Infrastructure Development, Inc., ULCOM Company Inc., Terramino Holdings, Inc. and subsidiary, Alloy Manila Toll Expressways Inc., SMC Infraventures, Inc. and subsidiary, Citra Intercity Tollways Inc., SMC Mass Rail Transit 7 Inc., San Miguel Aerocity Inc. and Luzon Clean Water Development Corporation.
8. Atlantic Aurum Investments B.V. subsidiaries include Atlantic Aurum Investments Philippines Corporation and subsidiaries including Stage 3 Connector Tollways Holding Corporation and subsidiary, Citra Central Expressway Corp., and Citra Metro Manila Tollways Corporation and subsidiary, Skyway O&M Corp., MTD Manila Expressways Inc. and subsidiaries, Alloy Manila Toll Expressways Inc., Manila Toll Expressway Systems Inc. and South Luzon Tollway Corporation.
9. Other Assets and Investments also include San Miguel International Limited and subsidiaries, SMC Stock Transfer Service Corporation, ArchEn Technologies Inc., SMITS, Inc. and subsidiaries, San Miguel Integrated Logistics Services, Inc., Anchor Insurance Brokerage Corporation, Davana Heights Development Corporation and subsidiaries and SMC Equivest Corporation.
10. SMC Equivest Corporation also owns 4.69% ownership in Bank of Commerce.

II. Co-Subsidiary

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



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

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the separate financial statements of San Miguel Corporation (the Company) as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

Our audits were made for the purpose of forming an opinion on the separate financial statements of the Company taken as a whole. The supplementary information included in the Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the separate financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the separate financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the separate financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION
No. 40 San Miguel Avenue, Mandaluyong City
RECONCILIATION OF RETAINED EARNINGS
FOR DIVIDEND DECLARATION
(In Millions)

Unappropriated Retained Earnings, January 1, 2019	P500,940
Adjustments:	
<i>(see adjustments in previous year's reconciliation)</i>	(402,732)
Adjustments due to Philippine Financial Reporting Standards 16	(25)
Unappropriated retained earnings as adjusted, January 1, 2019	98,183
Add: Net income actually earned/realized during the period	
Net income during the period closed to retained earnings	3,023
Deferred tax assets	2,312
Net income actually earned during the period	5,335
	103,518
Less: Dividend declared during the period	(10,524)
Total Unappropriated Retained Earnings Available for Dividend Declaration, December 31, 2019	P92,994



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

REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of San Miguel Corporation (the Company) and Subsidiaries (the Group), as at and for the year ended December 31, 2019, on which we have rendered our report dated March 12, 2020.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards and may not be comparable to similarly titled measures presented by other companies.

This supplementary information is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

R.G. MANABAT & CO.

WILFREDO Z. PALAD

Partner

CPA License No. 0045177

SEC Accreditation No. 0027-AR-5, Group A, valid until September 17, 2021

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2018

Issued November 29, 2018; valid until November 28, 2021

PTR No. MKT 8116777

Issued January 2, 2020 at Makati City

March 12, 2020
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of December 31, 2019 and 2018 for liquidity, solvency and profitability ratios and for the periods ending December 31, 2019 and 2018 for operating efficiency ratios.

	December 31	
	2019	2018
<u>Liquidity:</u>		
Current Ratio	1.46	1.36
Quick Ratio	0.96	0.86
<u>Solvency:</u>		
Debt to Equity Ratio	2.16	2.28
Asset to Equity Ratio	3.16	3.28
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	6.36%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
Return on Assets	2.67%	2.90%
<u>Operating Efficiency:</u>		
Volume Growth	3%	8%
Revenue Growth	0%	24%
Operating Margin	11%	11%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$

SAN MIGUEL CORPORATION AND SUBSIDIARIES

**INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2019**

A	- FINANCIAL ASSETS	
B	- AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)	NOT APPLICABLE
C	- AMOUNTS RECEIVABLE/PAYABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS	
D	- LONG-TERM DEBT	
E	- INDEBTEDNESS TO RELATED PARTIES	NOT APPLICABLE*
F	- GUARANTEES OF SECURITIES OF OTHER ISSUERS	NOT APPLICABLE
G	- CAPITAL STOCK	

* Balance of account is less than 5% of total assets of the Group

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2019
(Amounts in Millions, except No. of Shares Data)

Name of Issuing Entity / Description of Each Issue	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotations at Dec. 31, 2019	Income (Loss) Received and Accrued
Cash and cash equivalents	-	P 286,457	Not applicable	P 9,575
Trade and other receivables - net	-	136,488	Not applicable	387
Derivative assets	-	1,158	Not applicable	(3,308) *
Financial assets at FVPL	-	284	Not applicable	30
Financial assets at FVOCI**	-	41,907 P	41,907	1,894
Financial assets at amortized cost**	-	257	257	11
Noncurrent receivables and deposits - net	-	28,784	Not applicable	86
Restricted cash	-	12,423	Not applicable	219
		P 507,758	P 42,164	P 8,894

* This represents net marked-to-market gains/losses from derivative assets and derivative liabilities that have matured during the year and those that are still outstanding as of year-end.

** The number of shares or principal amounts of bonds and notes are presented in ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS.

See Notes 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
ATTACHMENT TO SCHEDULE A - FINANCIAL ASSETS
DECEMBER 31, 2019
(Amounts in Millions, Except No. of Shares Data)

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
San Miguel Corporation		
Alabang Country Club	7 P	50
Alta Vista Golf and Country Club	2	1
Apo Golf & Country Club	3	-
Baguio Country Club	1	3
Bancom Group Inc	999,546	-
Calatagan Golf Club	1	-
Camp John Hay	2	1
Canlubang Golf Club	3	5
Capitol Hills Golf & Country Club	1	-
Carmen Red Ltd.	-	5,139
Casino Espanol de Manila	2	-
Cebu Country Club	1	7
Celebrity Sports Plaza	3	-
Club Filipino	8	3
Continental Potash	7,909	-
Evercrest	2	-
Export & Industry Bank	940,560,000	-
Green Valley Club - Baguio	1	-
Greenfield Tennis Club	3	-
Iloilo Golf Club	1	-
Inter island Broadcasting Corp	4,458,928	-
Landgolf Inc	2	-
Makati Executive Center	1	-
Makati Sports Club	11	12
Manila Bankers Life	250,000	1
Manila Electric Company	100,331	1
Manila Golf & Country Club	3	188
Manila Polo Club	2	50
Manila Southwoods Golf & Country Club	1	1
Medical Doctors Inc.	83,379	174
Merchant Investment	41,660	-
Metropolitan Club	2	1
Metropolitan Theater	198	-
Mimosa Golf & Country Club	3	2
Monserrat Trading	1,000	-
Motor Services	52,500	-
Naga Telephone Co.	220	-
Negros Occidental Golf club	6	-
Norcem Philippines	80,000	-
Orchard Golf & Country Club	5	2
Pacific Club Corporate	1	-
Pantranco South Express	340,992	-

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
People's Press	1,500	-
Phil. Columbian Club	3	-
Phil. Dealing Sytem Holding Corp.	250,000	25
Phil. International Fair	500	-
Phil. Long Distance Tel. Co	230,594	2
Phil. Overseas Resources	10,000	-
Puerto Azul Golf Club	3	-
Quezon City Sports Club	1	1
Sta Elena Properties	7	5
Sta Elena Golf Club	1	5
Sta Lucia Realty Golf Club	2	1
Subic Bay Yacht Club	1	-
Tagaytay Highland Golf and Country Club	2	1
Tagaytay Midlands Country Club	1	1
The Country Club - Canlubang	2	8
Top Frontier Holdings, Inc. - Common	2,561,031	529
Top Frontier Holdings, Inc. - Preferred	1,904,540	35,425
Universal Leisure Club	1	-
Valle Verde Golf Club	53	16
Valley Golf Club Inc.	2	2
Victorias Country Club	1	-
Petron Corporation		
Government Security	-	226
Aboitiz Power Bonds	28	29
ABOITIZ EQUITY VENTURES, INC. (AEV 11-20)	37	38
Ayala Bond	75	76
SM Investments Corporation Bond	50	51
San Miguel International Limited		
Others	-	-
San Miguel Properties, Inc.		
Apo Golf & Country Club	1	1
Mimosa Golf & Country Club	4	2
Sta. Elena Golf & Country Club	1	5
Metro Club	1	-
Phil. Long Distance Tel Co		-
Meralco	91,011	1
Riviera Golf Course and Country Club	1	4
Tagaytay Midlands Country Club	1	1

Name of Issuing Entity	No. of Shares or Principal Amount of Bonds and Notes	Value Based on Market Quotation at December 31, 2019 (a)
San Miguel Paper Packaging Corp.		
Phil Long Distance Tel.	5,200	-
Evercrest Golf & Country Club	1	-
Orchard Golf & Country Club	1	1
Apo Golf & Country Club	1	-
San Miguel Yamamura Asia Corporation		
Manila Southwoods Golf & Country Club	1	1
Orchard Golf and Country Club	1	1
Evercrest Golf & Country Club	1	-
San Miguel Yamamura Packaging Corporation		
Canlubang Golf & Country Club	1	2
Manila Southwoods Golf and Country Club	1	2
Orchard Golf & Country Club	1	2
Puerto Azul Golf Club	1	-
Riviera Golf Course and Country Club	1	-
Mindanao Corrugated Fibreboard, Inc.		
Apo Golf Country Club	1	-
Food and Beverage Group		
Club Filipino	2	1
Makati Sports Club, Inc.	2	2
Philippine Long Distance Tel. Co.	5,753	-
Valle Verde Country Club	1	1
Capitol Hills Golf and Country Club, Inc.	1	-
Alabang Country Club	1	7
Golf Club Bogor Raya	1	-
Manila Southwoods Golf & Country Club	1	1
Sta Elena Golf Club	1	6
Manila Electric Co.	14,895	-
Tagaytay Highland Golf and Country Club	1	1
Royal Tagaytay Country Club	1	-
Orchard Golf and Country Club	1	1
HSBC Holdings	20,400	8
Pacific Club Kowloon	1	7
Hongkong Arts Centre Ltd.	1	-
The American Club Hong Kong	1	9
Hong Kong Football Club	1	6
Discovery Bay Golf Club	1	9
San Miguel Holdings Corp.		
Architectural Center Club Inc	1	-
Philippine Expressway Support Service Inc	1	-
Phil Am Properties	1	-
San Miguel Global Power		
Philippine Treasury Bill	-	
Total Financial Assets	P	42,164

See Notes 4, 11, 13, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS COLLECTED/ CREDIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
Sea Refinery Corporation	₱ 31,382	₱ -	₱ -	₱ -	₱ 31,382	₱ 31,382	₱ -	₱ 31,382
San Miguel Holdings Corp. and Subsidiaries	24,202	1,401	(3,286)	-	22,317	22,275	42	22,317
San Miguel Corporation	1,522	7,350	(2,967)	-	5,905	5,905	-	5,905
San Miguel Food and Beverage, Inc. and Subsidiaries	6,200	34,712	(32,822)	-	8,090	8,001	89	8,090
SMC Asia Car Distributors Corp.	3,663	(2,816)	(837)	-	10	10	-	10
Challenger Aero Air Corporation	5,417	1,299	(800)	-	5,916	5,387	529	5,916
Fortunate Land Inc. and a Subsidiary	2,010	-	-	-	2,010	-	2,010	2,010
San Miguel Yamamura Packaging Corp. and Subsidiaries	1,188	3,538	(3,914)	-	812	812	-	812
San Miguel International Limited and Subsidiaries	1,039	3,726	(3,227)	-	1,538	652	886	1,538
San Miguel Yamamura Asia Corporation	866	5,069	(5,259)	-	676	676	-	676
SMC Shipping and Lighterage Corporation and Subsidiaries	1,948	12,028	(12,867)	-	1,109	1,109	-	1,109
Petron Corporation and Subsidiaries	914	5,630	(5,532)	-	1,012	1,012	-	1,012
Advantage Properties Corporation	546	-	-	-	546	546	-	546
San Miguel Beverages, Inc.	656	-	(19)	-	637	637	-	637
SMC Global Power Holdings Corp. and Subsidiaries	555	33,235	(33,277)	-	513	491	22	513
San Miguel Paper Packaging Corp.	427	-	(33)	-	394	10	384	394
San Miguel Campo Carne Corporation	398	-	-	-	398	398	-	398
San Miguel Properties, Inc. and Subsidiaries	263	(9)	(61)	-	193	193	-	193
Pacific Central Properties, Inc.	227	14	(22)	-	219	218	1	219
Archen Technologies, Inc.	208	48	(247)	-	9	9	-	9
San Miguel Equity Investments, Inc. and Subsidiaries	3,010	5,234	(6,660)	-	1,584	1,584	-	1,584
SMC Equivest Corporation	975	(975)	-	-	-	-	-	-
Others	6,897	4,851	(7,574)	-	4,174	2,655	1,519	4,174
	<u>₱ 94,513</u>	<u>₱ 114,335</u>	<u>₱ (119,404)</u>	<u>₱ -</u>	<u>₱ 89,444</u>	<u>₱ 83,962</u>	<u>₱ 5,482</u>	<u>₱ 89,444</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE C - AMOUNTS PAYABLE TO RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019
(Amounts in Millions)

NAME OF RELATED PARTY	BEGINNING BALANCE	ADDITIONS/ CTA/RECLASS/ OTHERS	AMOUNTS PAID/ DEBIT MEMO	AMOUNTS WRITTEN OFF	TOTAL	CURRENT	NONCURRENT	ENDING BALANCE
San Miguel Corporation	₱ 71,412	₱ 17,961	₱ (22,320)	₱	₱ 67,053	₱ 62,470	₱ 4,583	₱ 67,053
San Miguel International Limited and Subsidiaries	704	4,457	(4,630)		531	531	-	531
San Miguel Holdings Corp. and Subsidiaries	1,134	8,936	(5,054)		5,016	5,016	-	5,016
SMC Shipping and Lighterage Corporation and Subsidiaries	3,033	15,004	(15,326)		2,711	2,711	-	2,711
San Miguel Yamamura Asia Corporation	1,560	5,831	(5,120)		2,271	1,376	895	2,271
San Miguel Yamamura Packaging Corp. and Subsidiaries	5,367	862	(2,632)		3,597	3,467	130	3,597
SMC Global Power Holdings Corp. and Subsidiaries	5,522	4,075	(8,641)		956	956	-	956
Petron Corporation and Subsidiaries	2,051	7,787	(8,708)		1,130	1,130	-	1,130
San Miguel Food and Beverage, Inc. and Subsidiaries	861	2,456	(1,528)		1,789	1,713	76	1,789
Archen Technologies, Inc.	559	2,430	(2,089)		900	900	-	900
SMITS, Inc. and Subsidiaries	570	1,737	(1,776)		531	445	86	531
San Miguel Properties, Inc. and Subsidiaries	106	714	(692)		128	128	-	128
Others	1,634	5,608	(4,411)		2,831	2,397	434	2,831
	<u>₱ 94,513</u>	<u>₱ 77,858</u>	<u>₱ (82,927)</u>	<u>₱ -</u>	<u>₱ 89,444</u>	<u>₱ 83,240</u>	<u>₱ 6,204</u>	<u>₱ 89,444</u>

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TTLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
Parent Company													
<u>Peso denominated:</u>													
Fixed	Philippine Depository and Trust Corp.	P 60,000	P -	P -	P -	60,000	(500)	P 59,500	59,500	4.8243%, 5.1923%, 5.2840%, 5.55% 5.7613%, 6.25%, 6.625% and 7.125%	Bullet	Quarterly	March 2022, April 2022, March 2023, March 2024, March 2025, March 2027 and March 2028
Fixed	Philippine Depository and Trust Corp.	10,000	10,000	(25)	9,975	-	-	-	9,975	5.25%	Bullet	Quarterly	May 2020
Fixed	BDO Unibank, Inc.	15,920	160	(1)	159	15,760	(112)	15,648	15,807	6.9375%	Amortized	Quarterly	June 24, 2026
<u>Foreign currency - denominated</u>													
Fixed	DB Trustees (Hong Kong) Limited	26,147	-	-	-	26,147	(128)	26,019	26,019	4.875%	Bullet	Semi-annual	April 2023
	Standard Chartered Bank (Hongkong) Limited as Agent	20,254	-	-	-	20,254	(311)	19,943	19,943	LIBOR + margin	Bullet	1/3/6 months	March 2023
Floating	Various foreign banks	15,190	-	(35)	(35)	15,190	(85)	15,105	15,070	LIBOR + margin	Bullet	1/3/6 months	October 2020, 2022 and 2024
Floating	Various foreign banks	15,190	-	-	-	15,190	(201)	14,989	14,989	LIBOR + margin	Bullet	1/3/6 months	June 2023
	Sumitomo Mitsui Banking Corporation												
Floating	Singapore Branch	15,191	4,051	-	4,051	11,140	(219)	10,921	14,972	LIBOR + margin	Bullet	1/3/6 months	September 2023
Floating	Mizuho Bank, Ltd.	10,127	-	-	-	10,127	(146)	9,981	9,981	LIBOR + margin	Bullet	1/3/6 months	November 2023
	Standard Chartered Bank (Hongkong) Limited as Agent	2,532	-	-	-	2,532	(168)	2,364	2,364	LIBOR + margin	Bullet	1/3/6 months	September 2024
		<u>190,551</u>	<u>14,211</u>	<u>(61)</u>	<u>14,150</u>	<u>176,340</u>	<u>(1,870)</u>	<u>174,470</u>	<u>188,620</u>				
Subsidiaries													
<u>Peso denominated:</u>													
<u>Petron Corporation</u>													
Fixed	Philippine Depository and Trust Corp.	13,000	-	-	-	13,000	(53)	12,947	12,947	4.0032%	Bullet	Quarterly	October 2021
Fixed	Philippine Depository and Trust Corp.	7,000	-	-	-	7,000	(41)	6,959	6,959	4.5219%	Bullet	Quarterly	October 2023
Fixed	Philippine Depository and Trust Corp.	13,200	-	-	-	13,200	(131)	13,069	13,069	7.8183%	Bullet	Quarterly	April 2024
Fixed	Philippine Depository and Trust Corp.	<u>6,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,800</u>	<u>(70)</u>	<u>6,730</u>	<u>6,730</u>	<u>8.0551%</u>	<u>Bullet</u>	<u>Quarterly</u>	<u>October 2025</u>
		40,000	-	-	-	40,000	(295)	39,705	39,705				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository and Trust Corp.	35,000	-	-	-	35,000	(301)	34,699	34,699	5.375%, 6.25%, 6.625% and 6.75%	Bullet	Quarterly	December 2022, August 2023, December 2024 and December 2027
Fixed	Philippine Depository and Trust Corp.	30,000	-	-	-	30,000	(331)	29,669	29,669	6.8350%, 7.1783% and 7.6000%	Bullet	Quarterly	April 2022, April 2024 and April 2026
<u>SM Brewery Inc.</u>													
Fixed	Bank of the Philippine Islands	10,000	-	-	-	10,000	(75)	9,925	9,925	4.63%	Bullet	Quarterly	December 2024
Fixed	Philippine Depository & Trust Corp.	7,000	-	-	-	7,000	(21)	6,979	6,979	6.60%	Bullet	Semi-annual	April 2022
<u>SM Brewery Inc.</u>													
Fixed	Philippine Depository & Trust Corp.	12,462	-	-	-	12,462	(26)	12,436	12,436	5.50%	Bullet	Semi-annual	April 2021
Fixed	Philippine Depository & Trust Corp.	<u>2,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,538</u>	<u>(12)</u>	<u>2,526</u>	<u>2,526</u>	<u>6.00%</u>	<u>Bullet</u>	<u>Semi-annual</u>	<u>April 2024</u>
		15,000	-	-	-	15,000	(38)	14,962	14,962				
<u>SMC Global Power Holdings Corp.</u>													
Fixed	Philippine Depository & Trust Corp.	6,153	-	-	-	6,153	(23)	6,130	6,130	4.3458%	Bullet	Quarterly	July 2021
Fixed	Philippine Depository & Trust Corp.	4,091	-	-	-	4,091	(25)	4,066	4,066	4.7575%	Bullet	Quarterly	July 2023
Fixed	Philippine Depository & Trust Corp.	<u>4,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,756</u>	<u>(38)</u>	<u>4,718</u>	<u>4,718</u>	<u>5.1792%</u>	<u>Bullet</u>	<u>Quarterly</u>	<u>July 2026</u>
		15,000	-	-	-	15,000	(86)	14,914	14,914				
<u>South Luzon Tollway Corporation</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	7,300	2,400	(4)	2,396	4,900	(31)	4,869	7,265	4.9925%, 5.5796% and 6.4872%	Bullet	Quarterly	August 2020, May 2022 and May 2025
<u>SMC Consolidated Power Corporation</u>													
Fixed	Philippine National Bank as Trustee	41,900	1,510	(79)	1,431	40,390	(547)	39,843	41,274	6.2836%, 6.5362%, and 7.3889%	Amortized	Quarterly	June 2029
<u>Citra Central Expressway Corp.</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	8,700	191	(12)	179	8,509	(62)	8,447	8,626	6.865%, 6.87%, 6.9283%, 7.4817%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	3,200	70	(6)	64	3,130	(28)	3,102	3,166	8.0589%	Amortized	Quarterly	August 2027
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	<u>19,100</u>	<u>418</u>	<u>(34)</u>	<u>384</u>	<u>18,682</u>	<u>(182)</u>	<u>18,500</u>	<u>18,884</u>	<u>8.696%, 9.0260%, 9.4679%, 9.8080 % and 9.8754%</u>	<u>Amortized</u>	<u>Quarterly</u>	<u>August 2027</u>
		31,000	679	(52)	627	30,321	(272)	30,049	30,676				

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TTLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>San Miguel Consolidated Power Corporation</u>													
Fixed	Rizal Commercial Banking Corp - Trust & Investments Group	P 20,004	P 1,296	P (39)	P 1,257	P 18,708	P (296)	P 18,412	P 19,669	7.7521% and 6.5077%	Amortized	Quarterly	August 2030
<u>SMC Global Power Holdings Corp.</u>													
Fixed	BDO Unibank, Inc.	14,700	150	(22)	128	14,550	(81)	14,469	14,597	6.9265%	Amortized	Quarterly	April 2024
<u>Petron Corporation</u>													
Fixed	BDO Unibank, Inc.	10,179	2,143	(16)	2,127	8,036	(27)	8,009	10,136	5.5276%	Amortized	Quarterly	July 2024
<u>Atlantic Aurum Investments Philippines Corporation</u>													
Fixed	Philippine National Bank as Trustee	17,300	346	(32)	314	16,954	(548)	16,406	16,720	5.9970%	Amortized	Quarterly	December 2029
<u>Private Infra Dev Corporation</u>													
Fixed	BDO Unibank Inc. - Trust and Investment Group as Trustee	12,000	360	(12)	348	11,640	(78)	11,562	11,910	5.6276%	Amortized	Quarterly	September 2029
<u>Petron Corporation</u>													
Fixed	Bank of the Philippine Islands	7,500	2,500	(11)	2,489	5,000	(10)	4,990	7,479	5.7584%	Amortized	Quarterly	December 2022
<u>Vertex Tollways Devt. Inc.</u>													
Fixed	Philippine National Bank as Trustee	5,819	788	(12)	776	5,031	(28)	5,003	5,779	6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567%	Amortized	Quarterly	February 2025
<u>Luzon Clean Water Development Corporation</u>													
Fixed	Asia United Bank Corporation - Trust and Investment Group as Trustee	4,179	84	(4)	80	4,095	(32)	4,063	4,143	8.4211%, 8.699%, 9.278% and 9.885%	Amortized	Quarterly	March 2030
<u>Petron Corporation</u>													
Fixed	Union Bank of the Philippines	3,000	1,000	(3)	997	2,000	(2)	1,998	2,995	5.4583%	Amortized	Quarterly	October 2022
<u>MTD Manila Expressways Inc.</u>													
Fixed	Standard Chartered Bank, Philippines Branch as Security Agent	392	392	(1)	391	-	-	-	391	8.6615%	Amortized	Semi-annual	March 2020
<u>Star Infrastructure Development Corporation</u>													
Fixed	Philippine National Bank as Trustee	1,818	472	(4)	468	1,346	(4)	1,342	1,810	6.6583%	Amortized	Quarterly	June 2023
<u>SMC Shipping and Lighterage Corporation</u>													
Fixed	Union Bank of the Philippines	1,500	-	-	-	1,500	(2)	1,498	1,498	5.000%	Bullet	Quarterly	July 2021
<u>Ginebra San Miguel Inc.</u>													
Fixed	Union Bank of the Philippines	882	235	(2)	233	647	(3)	644	877	8.3480%	Amortized	Quarterly	September 2023
<u>San Miguel Yamamura Asia Corporation</u>													
Floating	Philippine National Bank	3,760	533	(9)	524	3,227	(11)	3,216	3,740	BVAL + margin or BSP overnight rate plus margin, whichever is higher	Amortized	Quarterly	July 2023
<u>Trans Aire Development Holdings Corp.</u>													
Floating	Bank of Commerce	2,360	479	(2)	477	1,881	(2)	1,879	2,356	BVAL + margin	Amortized	Quarterly	October 2022
<u>San Miguel Foods, Inc.</u>													
Floating	Bank of the Philippine Islands	10,000	-	-	-	10,000	(75)	9,925	9,925	BVAL + margin or BSP TDF + margin whichever is higher	Amortized	Quarterly	December 2029
<u>San Miguel Mills, Inc.</u>													
Floating	Bank of the Philippine Islands	2,000	-	-	-	2,000	(15)	1,985	1,985	BVAL + margin or BSP TDF + margin whichever is higher	Amortized	Quarterly	December 2026
<u>San Miguel Yamamura Asia Corporation</u>													
Floating	Philippine National Bank	551	22	-	22	529	(4)	525	547	BVAL + margin	Amortized	Monthly	December 2024

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE D - LONG-TERM DEBT
DECEMBER 31, 2019
(Amounts in Millions)

TITLE OF ISSUE	AGENT / LENDER	Outstanding	Current Portion of Debt	Transaction Cost Current	Amount Shown as Current	Long-term Noncurrent Portion Debt	Noncurrent Transaction Cost	Amount Shown as Noncurrent	Outstanding Balance	INTEREST RATES	Number of Periodic Installments	Interest Payments	Final Maturity
<u>Foreign currency - denominated</u>													
<u>Petron Corporation</u>													
Floating	Standard Chartered Bank (HongKong) Limited as Agent	P 33,130 P	11,429 P	(162) P	11,267 P	21,701 P	(114) P	21,587 P	32,854	LIBOR + margin	Amortized	1, 3, or 6 months	June 2022
Floating	Standard Chartered Bank (HongKong) Limited as Agent	40,508	-	-	-	40,508	(600)	39,908	39,908	LIBOR + margin	Amortized	1, 3, or 6 months	May 2024
<u>SMC Global Power Holdings Corp.</u>													
Floating	Standard Chartered Bank (HongKong) Limited as Agent	35,445	-	-	-	35,445	(521)	34,924	34,924	LIBOR + margin	Bullet	Monthly	March 2021 and March 2023
<u>Masiniac Power Partners Co. Ltd.</u>													
Fixed	Philippine National Bank as Trustee	28,189	2,467	(50)	2,417	25,722	(304)	25,418	27,835	4.7776% and 5.5959%	Amortized	Semi-annual	January 2023 and December 2030
Floating	Philippine National Bank as Trustee	9,319	819	(16)	803	8,500	(85)	8,415	9,218	LIBOR + margin	Amortized	Semi-annual	January 2023 and December 2030
<u>San Miguel Yamamura Australasia PTY. Ltd</u>													
Floating	MUFG Bank Ltd. as Agent	2,835	89	(9)	80	2,746	(34)	2,712	2,792	LIBOR + margin	Amortized	Quarterly	July 2024
<u>INSA Alliance Sdn. Bhd.</u>													
Floating	MAYBANK	6	2		2	4		4	6	COF + margin	Amortized	Monthly	December 2022
Floating	Hong Leong Bank Berhad	2	1		1	1		1	2	COF + margin	Amortized	Monthly	July 2021
Floating	Hong Leong Bank Berhad	2	1		1	1		1	2	COF + margin	Amortized	Monthly	September 2021
Floating	MAYBANK	18	2		2	16		16	18	COF + margin	Amortized	Monthly	October 2027
		28	6	-	6	22	-	22	28				
		499,598	30,199	(541)	29,658	469,399	(4,873)	464,526	494,184				
Total Long-term Debt													
		P 690,149 P	44,410 P	(602) P	43,808 P	645,739 P	(6,743) P	638,996 P	682,804				

See Notes 5, 21, 30, 33, 40 and 41 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
SCHEDULE G - CAPITAL STOCK
December 31, 2019

DESCRIPTION	NUMBER OF SHARES AUTHORIZED	NUMBER OF SHARES ISSUED	TREASURY SHARES	NUMBER OF SHARES OUTSTANDING	NUMBER OF SHARES RESERVED FOR OPTIONS *	NUMBER OF SHARES HELD BY: AFFILIATES	DIRECTORS, OFFICERS AND EMPLOYEES
ISSUED SHARES							
COMMON STOCK	3,790,000,000	3,288,649,125	904,752,537	2,383,896,588	134,641,564	16,395	8,349,920
SERIES "1" PREFERRED SHARES	300,000,000	279,406,667	-	279,406,667	-	-	-
SERIES "2" PREFERRED SHARES	1,910,000,000	1,758,099,686	655,873,286	1,102,226,400	-	-	1,050,600
	<u>6,000,000,000</u>	<u>5,326,155,478</u>	<u>1,560,625,823</u>	<u>3,765,529,655</u>	<u>134,641,564</u>	<u>16,395</u>	<u>9,400,520</u>

* See Notes 24, 36, 37 and 39 of the Consolidated Financial Statements.

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
DECEMBER 31, 2019
(In Millions)

	Total	Current	Past Due			
			1 - 30 Days	31 - 60 Days	61 - 90 Days	Over 90 Days
Trade	86,794	63,321	8,510	2,415	853	11,695
Non-trade	47,205	23,884	1,972	448	1,329	19,572
Others	15,177	13,826	390	14	23	924
Total	149,176	101,031	10,872	2,877	2,205	32,191
Less allowance for impairment losses	12,688					
Net	136,488					

ANNEX “B-1”

**SAN MIGUEL CORPORATION
SEC FORM -17Q
(As of March 31, 2020)**

COVER SHEET

P	W	-	2	7	7				
---	---	---	---	---	---	--	--	--	--

S. E. C. Registration Number

						S	A	N									
--	--	--	--	--	--	---	---	---	--	--	--	--	--	--	--	--	--

						M	I	G	U	E	L						
--	--	--	--	--	--	---	---	---	---	---	---	--	--	--	--	--	--

			C	O	R	P	O	R	A	T	I	O	N				
--	--	--	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--

(Company's Full Name)

N	O	.	4	0		S	A	N		M	I	G	U	E	L		A	V	E
M	A	N	D	A	L	U	Y	O	N	G		C	I	T	Y				
M	E	T	R	O		M	A	N	I	L	A								
P	H	I	L	I	P	P	I	N	E	S									

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

Atty. Mary Rose S. Tan

Contact Person

(632) 632-3000

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

SEC FORM (1st quarter-2020)

		1	7	-	Q		
--	--	---	---	---	---	--	--

FORM TYPE

2nd Tuesday of June

--	--	--	--

Month Day
Annual Meeting

--

Secondary License Type, If Applicable

--

Dept. Requiring this Doc.

--

Amended Articles Number/Section

--

Total No. of Stockholders

Total Amount of Borrowings

--	--

Domestic Foreign

To be accomplished by SEC Personnel concerned

--

File Number

_____ LCU

--

Document I. D.

_____ Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-Q
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended March 31, 2020
2. Commission identification number PW00000227
3. BIR Tax Identification No. 000-060-741-000
4. Exact name of issuer as specified in its charter SAN MIGUEL CORPORATION
5. Philippines
Province, country or other jurisdiction
of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. No. 40 San Miguel Avenue,
Mandaluyong City, Metro Manila 1550
Address of issuer's principal office Postal Code
8. (632) 632-3000
Issuer's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

	Number of Shares of Stock and debt Outstanding as of March 31, 2020	
Common Shares	2,383,896,588	
SUB-TOTAL (Common Shares)		2,383,896,588
Series 1 Preferred	279,406,667	
Series "2-A" Preferred Shares	0	
Series "2-B" Preferred Shares	0	
Series "2-C" Preferred Shares	255,559,400	
Series "2-D" Preferred Shares	89,333,400	
Series "2-E" Preferred Shares	134,000,100	
Series "2-F" Preferred Shares	223,333,500	
Series "2-G" Preferred Shares	66,666,600	
Series "2-H" Preferred Shares	164,000,000	
Series "2-I" Preferred Shares	<u>169,333,400</u>	
(SUB-TOTAL (Preferred Shares)		1,381,633,067
TOTAL Outstanding Shares		3,765,529,655

Total Liabilities P1,330,449 million

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

Yes [☒] No [☐]

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

Philippine Stock Exchange

- (a) Common Shares
- (b) Series "1" Preferred Shares
- (c) Series "2" Preferred Shares - Subseries 2-A¹
- (d) Series "2" Preferred Shares - 2-B²
- (e) Series "2" Preferred Shares - 2-C
- (f) Series "2" Preferred Shares - 2-D
- (g) Series "2" Preferred Shares - 2-E
- (h) Series "2" Preferred Shares - 2-F
- (i) Series "2" Preferred Shares - 2-G
- (j) Series "2" Preferred Shares - 2-H
- (k) Series "2" Preferred Shares - 2-I

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months.

Yes [☒] No [☐]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [☒] No [☐]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively, the "Group") as of and for the period ended March 31, 2020 (with comparative figures as of December 31, 2019 and for the period ended March 31, 2019) and Selected Notes to the Consolidated Financial Statements is hereto attached as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Position and Financial Performance.

The information required by Part III, Paragraph (A)(2)(b) of "Annex C, as amended" is attached hereto as **Annex "B"**.

PART II--OTHER INFORMATION

The Company may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.

NONE

¹ Subject to trading suspension following their redemption on September 21, 2015

² Subject to trading suspension following their redemption on September 23, 2019

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **SAN MIGUEL CORPORATION**

Signature and Title **FERDINAND K. CONSTANTINO**
Chief Finance Officer and Treasurer

Date May 29, 2020

Signature and Title **BELLA O. NAVARRA**
Comptrollership Manager/
Principal Accounting Officer

Date May 29, 2020

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2020 AND DECEMBER 31, 2019
(In Millions)

ANNEX "A"

ASSETS

LIABILITIES AND EQUITY

	2020 Unaudited	2019 Audited		2020 Unaudited	2019 Audited
Current Assets			Current Liabilities		
Cash and cash equivalents (Notes 9 and 10)	P 384,316	P 286,457	Loans payable (Notes 5, 9 and 10)	P 169,361	P 169,492
Trade and other receivables - net (Notes 5, 9 and 10)	134,637	136,488	Accounts payable and accrued expenses (Notes 5, 9 and 10)	148,075	176,037
Inventories	109,518	127,463	Lease liabilities - current portion (Notes 5, 9 and 10)	25,272	24,979
Current portion of biological assets - net	4,121	4,151	Income and other taxes payable	24,161	21,185
Prepaid expenses and other current assets (Notes 9 and 10)	90,527	86,585	Dividends payable (Note 8)	4,361	4,116
			Current maturities of long-term debt - net of debt issue costs (Notes 5, 9 and 10)	55,364	43,808
Total Current Assets	723,119	641,144	Total Current Liabilities	426,594	439,617
Noncurrent Assets			Noncurrent Liabilities		
Investments and advances - net	53,027	52,861	Long-term debt - net of current maturities and debt issue costs (Notes 5, 9 and 10)	746,307	638,996
Investments in equity and debt instruments (Notes 9 and 10)	41,871	42,055	Deferred tax liabilities	24,388	25,265
Property, plant and equipment - net (Note 6)	472,125	463,614	Lease liabilities - net of current portion (Notes 5, 9 and 10)	110,376	117,269
Right-of-use assets - net	171,374	173,604	Other noncurrent liabilities (Notes 5, 9 and 10)	22,784	22,192
Investment property - net	51,828	51,779	Total Noncurrent Liabilities	903,855	803,722
Biological assets - net of current portion	2,752	2,808	Equity		
Goodwill - net	129,451	130,073	Equity Attributable to Equity Holders of the Parent Company		
Other intangible assets - net	152,646	149,014	Capital stock - common	16,443	16,443
Deferred tax assets	18,048	18,052	Capital stock - preferred	10,187	10,187
Other noncurrent assets - net (Notes 5, 9 and 10)	93,461	92,730	Additional paid-in capital	177,938	177,938
			Equity reserves	11,470	14,390
Total Noncurrent Assets	1,186,583	1,176,590	Retained earnings:		
	P 1,909,702	P 1,817,734	Appropriated	57,216	56,689
			Unappropriated	168,652	173,092
			Treasury stock	(116,283)	(116,283)
				325,623	332,456
			Non-controlling Interests	253,630	241,939
			Total Equity	579,253	574,395
				P 1,909,702	P 1,817,734

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

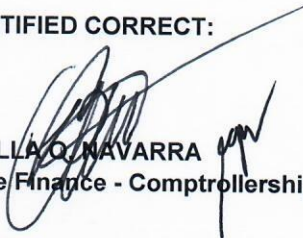
BELLARMINA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Millions, Except Per Share Data)

	<u>2020</u> <u>Unaudited</u>	<u>2019</u> <u>Unaudited</u>
SALES (Note 3)	P 214,066	P 250,924
COST OF SALES	<u>181,429</u>	<u>199,795</u>
GROSS PROFIT	32,637	51,129
SELLING AND ADMINISTRATIVE EXPENSES	(20,909)	(20,023)
INTEREST EXPENSE AND OTHER FINANCING CHARGES	(13,232)	(13,667)
INTEREST INCOME	2,085	2,719
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES	(46)	208
GAIN (LOSS) ON SALE OF INVESTMENTS AND PROPERTY AND EQUIPMENT	(331)	33
OTHER INCOME (CHARGES) - Net (Note 4)	<u>3,723</u>	<u>(433)</u>
INCOME BEFORE INCOME TAX	3,927	19,966
INCOME TAX EXPENSE	<u>2,834</u>	<u>7,141</u>
NET INCOME	<u>P 1,093</u>	<u>P 12,825</u>
Attributable to:		
Equity holders of the Parent Company	P (1,274)	P 5,709
Non-controlling interests	<u>2,367</u>	<u>7,116</u>
	<u>P 1,093</u>	<u>P 12,825</u>
Basic and Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company (Note 7)	P (1.25)	P 1.63

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

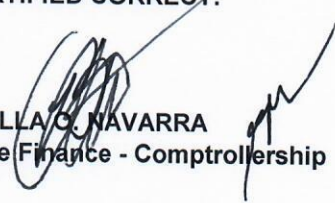

BELLA Q. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Millions)

	2020 Unaudited	2019 Unaudited
NET INCOME	P 1,093	P 12,825
OTHER COMPREHENSIVE INCOME (LOSS)		
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS		
EQUITY RESERVE FOR RETIREMENT PLAN	(12)	-
INCOME TAX BENEFIT	3	-
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(172)	33
INCOME TAX EXPENSE	(3)	(8)
SHARE IN OTHER COMPREHENSIVE INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES - Net	(61)	89
	<u>(245)</u>	<u>114</u>
ITEMS THAT MAY BE RECLASSIFIED TO PROFIT OR LOSS		
GAIN (LOSS) ON EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN OPERATIONS	(3,727)	809
NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	(1)	5
NET LOSS ON CASH FLOW HEDGES	(45)	(165)
INCOME TAX BENEFIT	26	49
	<u>(3,747)</u>	<u>698</u>
OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax	<u>(3,992)</u>	<u>812</u>
TOTAL COMPREHENSIVE INCOME (LOSS) - Net of tax	<u>P (2,899)</u>	<u>P 13,637</u>
Attributable to:		
Equity holders of the Parent Company	P (3,504)	P 6,154
Non-controlling interests	605	7,483
	<u>P (2,899)</u>	<u>P 13,637</u>

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

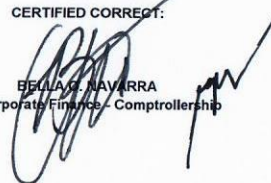
CERTIFIED CORRECT:


BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Millions)

	Equity Attributable to Equity Holders of the Parent Company																			Non-controlling Interests			Total Equity							
	Capital Stock		Additional Paid-in Capital	Equity Reserves										Retained Earnings		Treasury Stock		Total												
	Common	Preferred		Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Translation Reserve	Other Equity Reserve	Appropriated	Unappropriated	Common	Preferred																		
As of January 1, 2020, (Audited)	P	16,443	P	10,187	P	177,938	P	(4,850)	P	(614)	P	548	P	982	P	18,324	P	56,689	P	173,092	P	(67,093)	P	(49,190)	P	332,456	P	241,939	P	574,395
Loss on exchange differences on translation of foreign operations		-		-		-		-		-		-		(1,974)		-		-		-		-		-		(1,974)		(1,753)		(3,727)
Share in other comprehensive loss of associates and joint ventures - net		-		-		-		-		(28)		(19)		(32)		-		-		-		-		-		(51)		(10)		(61)
Net gain (loss) on cash flow hedges, net of tax		-		-		-		-		(28)		-		-		-		-		-		-		-		(51)		9		(19)
Equity reserve for retirement plan		-		-		-		(1)		-		-		-		-		-		-		-		-		(1)		(8)		(9)
Net loss on financial assets at fair value through other comprehensive income		-		-		-		-		-		(176)		-		-		-		-		-		-		(176)		-		(176)
Other comprehensive loss		-		-		-		(1)		(28)		(195)		(2,006)		-		-		-		-		-		(2,230)		(1,762)		(3,992)
Net income (loss)		-		-		-		-		-		-		-		-		-		(1,274)		-		-		(2,230)		2,367		1,093
Total comprehensive income (loss)		-		-		-		(1)		(28)		(195)		(2,006)		-		-		(1,274)		-		-		(3,504)		605		(2,899)
Net addition (reduction) to non-controlling interests and others		-		-		-		(4)		-		(1)		36		(721)		(2,795)		2,690		-		-		(795)		15,858		15,063
Appropriations - net		-		-		-		-		-		-		-		3,322		3,322		(3,322)		-		-		-		-		-
Cash dividends (Note 8):																														
Common		-		-		-		-		-		-		-		-		-		(834)		-		-		(834)		(2,594)		(3,428)
Preferred		-		-		-		-		-		-		-		-		-		(1,700)		-		-		(1,700)		(609)		(2,309)
Distributions paid		-		-		-		-		-		-		-		-		-		(1,700)		-		-		-		(1,569)		(1,569)
As of March 31, 2020 (Unaudited)	P	16,443	P	10,187	P	177,938	P	(4,855)	P	(642)	P	352	P	(988)	P	17,603	P	57,216	P	168,652	P	(67,093)	P	(49,190)	P	325,623	P	253,630	P	579,253
As of January 1, 2019 (Audited)	P	16,443	P	10,187	P	177,938	P	(2,990)	P	(173)	P	514	P	3,239	P	20,923	P	72,820	P	146,757	P	(67,093)	P	(42,408)	P	336,157	P	173,368	P	509,525
Gain on exchange differences on translation of foreign operations		-		-		-		-		-		-		431		-		-		-		-		-		431		378		809
Share in other comprehensive income of associates and joint ventures - net		-		-		-		-		-		82		5		-		-		-		-		-		87		2		89
Net loss on cash flow hedges, net of tax		-		-		-		-		(102)		-		-		-		-		-		-		-		(102)		(14)		(116)
Net gain on financial assets at fair value through other comprehensive income		-		-		-		-		-		29		-		-		-		-		-		-		29		1		30
Other comprehensive income (loss)		-		-		-		-		(102)		111		436		-		-		-		-		-		445		367		812
Net income		-		-		-		-		-		-		-		-		-		5,709		-		-		5,709		7,116		12,825
Total comprehensive income (loss)		-		-		-		-		(102)		111		436		-		-		5,709		-		-		6,154		7,483		13,637
Net addition (reduction) to non-controlling interests and others		-		-		-		-		-		-		-		323		-		(69)		-		-		254		705		959
Reversal of appropriations - net		-		-		-		-		-		-		-		-		(617)		617		-		-		-		-		-
Cash dividends (Note 8):																														
Common		-		-		-		-		-		-		-		-		-		(834)		-		-		(834)		(2,715)		(3,549)
Preferred		-		-		-		-		-		-		-		-		-		(1,829)		-		-		(1,829)		(535)		(2,364)
Distributions paid		-		-		-		-		-		-		-		-		-		-		-		-		-		(1,616)		(1,616)
As of March 31, 2019 (Unaudited)	P	16,443	P	10,187	P	177,938	P	(2,990)	P	(275)	P	625	P	3,675	P	21,246	P	72,203	P	150,351	P	(67,093)	P	(42,408)	P	339,902	P	176,690	P	516,592

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:

BEILA G. NAVARRA
VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MARCH 31, 2020 AND 2019
(In Millions)

	2020 Unaudited	2019 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	P 3,927	P 19,966
Adjustments for:		
Interest expense and other financing charges	13,232	13,667
Depreciation, amortization and others - net	11,745	7,581
Loss (gain) on sale of property and equipment	331	(33)
Equity in net (earnings) losses of associates and joint ventures	46	(208)
Interest income	(2,085)	(2,719)
Operating income before working capital changes	27,196	38,254
Changes in noncash current assets, certain current liabilities and others	(13,981)	11,876
Cash generated from operations	13,215	50,130
Interest and other financing charges paid	(13,021)	(12,798)
Income taxes paid	(2,101)	(2,532)
Net cash flows provided by (used in) operating activities	(1,907)	34,800
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,021	2,428
Dividends received	535	537
Proceeds from sale of property and equipment	133	267
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(9)
Additions to investments and advances	(286)	(329)
Increase in other noncurrent assets and others	(7,796)	(12,636)
Additions to property, plant and equipment	(16,330)	(12,815)
Net cash flows used in investing activities	(21,723)	(22,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Short-term borrowings	271,339	257,407
Long-term borrowings	124,295	3,553
Payments of:		
Short-term borrowings	(271,329)	(246,397)
Long-term borrowings	(3,584)	(5,585)
Payments of lease liabilities	(6,349)	(4,949)
Redemption of preferred shares of a subsidiary	(15,000)	-
Cash dividends and distributions paid to non-controlling shareholders	(4,545)	(4,663)
Cash dividends paid	(2,518)	(2,650)
Increase in non-controlling interests and others	(138)	5
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	30,170	-
Net cash flows provided by (used in) financing activities	122,341	(3,279)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(852)	1,125
NET INCREASE IN CASH AND CASH EQUIVALENTS	97,859	10,089
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	286,457	243,150
CASH AND CASH EQUIVALENTS AT END OF PERIOD	P 384,316	P 253,239

Note: See accompanying Management Discussion and Analysis and Selected Notes to the Consolidated Financial Statements.

CERTIFIED CORRECT:


BELLA O. NAVARRA
 VP, Corporate Finance - Comptrollership

SAN MIGUEL CORPORATION AND SUBSIDIARIES
TRADE AND OTHER RECEIVABLES
MARCH 31, 2020
(In Millions)

	Total	Current	Past Due		
			1 - 30 Days	31 - 60 Days	Over 60 Days
Trade	81,036	52,964	12,139	3,260	12,673
Non-trade	51,136	24,357	963	889	24,927
Others	15,168	13,748	343	32	1,045
Total	147,340	91,069	13,445	4,181	38,645
Less allowance for impairment losses	12,703				
Net	134,637				

SAN MIGUEL CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **(Amounts in Millions, Except Per Share Data)**

1. Summary of Significant Accounting and Financial Reporting Policies

The Group prepared its interim consolidated financial statements as at and for the period ended March 31, 2020 and comparative financial statements for the same period in 2019 following the new presentation rules under Philippine Accounting Standard (PAS) No. 34, *Interim Financial Reporting*. The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

The consolidated financial statements were approved and authorized for issue in accordance with a resolution by the BOD on May 28, 2020.

The consolidated financial statements are presented in Philippine peso and all financial information are rounded off to the nearest million (000,000), except when otherwise indicated.

The principal accounting policies and methods adopted in preparing the interim consolidated financial statements of the Group are the same as those followed in the most recent annual audited consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of Amended Standards and Framework

The Financial Reporting Standards Council (FRSC) approved the adoption of a number of amended standards and framework as part of PFRS.

Amended Standards and Framework Adopted in 2020

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

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

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (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 a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The

amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

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

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

New and Amended 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 interim consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the interim consolidated financial statements.

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

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

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

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

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

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

2. Business Combination

Merger of San Miguel Yamamura Asia Corporation (SMYAC) and San Miguel Yamamura Packaging Corporation (SMYPC)

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger. The Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC on October 23 and December 20, 2019, respectively. By virtue of the said merger, the entire assets and liabilities of SMYAC were transferred to and absorbed by SMYPC. The merger was effective on March 1, 2020.

The Group used the pooling of interest method to account for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory.

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

As at May 28, 2020, SMYPC is still in the process of completing the requirements for the application with the Bureau of Internal Revenue for a tax-free exchange certification/ruling on the merger.

3. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and

managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, energy, fuel and oil and infrastructure.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively known as "Prepared and Packaged Food") , (ii) the production and sale of feeds ("Animal Nutrition and Health"), (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats ("Protein"), and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations ("Others"). It is also engaged in the production, marketing and selling of fermented, malt-based, and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company, electric cooperatives, industrial customers and the Philippine Wholesale Electricity Spot Market.

The fuel and oil segment is engaged in refining and marketing of petroleum products.

The infrastructure segment is engaged in the business of construction and development of various infrastructure projects such as airports, roads, highways, toll roads, freeways, skyways, flyovers, viaducts, interchanges and mass rail transit system.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transactions are eliminated in consolidation.

Financial information about reportable segments follows:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Others		Eliminations		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Sales																
External sales	P68,973	P75,577	P5,789	P6,299	P27,475	P33,853	P103,131	P123,254	P4,660	P6,358	P4,038	P5,583	P-	P-	P214,066	P250,924
Inter-segment sales	45	78	2,707	2,541	823	823	1,492	1,304	1	1	5,623	4,579	(10,691)	(9,326)	-	-
Total sales	P69,018	P75,655	P8,496	P8,840	P28,298	P34,676	P104,623	P124,558	P4,661	P6,359	P9,661	P10,162	(P10,691)	(P9,326)	P214,066	P250,924
Results																
Segment results	P8,643	P10,810	P570	P828	P7,823	P9,841	(P6,629)	P5,906	P1,772	P3,130	(P571)	P923	P120	(P332)	P11,728	P31,106

Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

	Food and Beverage		Packaging		Energy		Fuel and Oil		Infrastructure		Others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Timing of revenue recognition														
Sales recognized at point in time	P68,971	P75,560	P5,581	P6,146	P-	P-	P103,123	P123,254	P-	P-	P3,378	P4,525	P181,053	P209,485
Sales recognized over time	2	17	208	153	27,475	33,853	8	-	4,660	6,358	660	1,058	33,013	41,439
Total external sales	P68,973	P75,577	P5,789	P6,299	P27,475	P33,853	P103,131	P123,254	P4,660	P6,358	P4,038	P5,583	P214,066	P250,924

4. Other Income (Charges)

Other income (charges) consists of:

	<i>Note</i>	March 31	
		2020	2019
Construction revenue		P5,073	P3,339
Gain (loss) on derivatives - net		2,150	(1,270)
Income from liquidated damages		1,931	-
Dividend income		535	535
Gain (loss) on foreign exchange - net	9	(380)	178
Construction costs		(5,073)	(3,339)
Others		(513)	124
		P3,723	(P433)

Construction revenue is recognized by reference to the stage of completion of the construction activity at the reporting date. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Construction costs pass through the profit or loss before it is capitalized as toll road, airport, port and water concession rights.

Income from liquidated damages pertains to the probable amount, based on the assessment of Management, to be recovered from a third party contractor to compensate the Group for the delay in the construction and completion of a power plant unit of one of its subsidiaries. As at reporting date, the Group and the Engineering, Procurement and Construction Contractor are still finalizing the Settlement Agreement which provides among others the pertinent details on the said liquidated damages.

“Others” consist of rent income, commission income, changes in fair value of financial assets at fair value through profit or loss (FVPL) and insurance claims. This also includes SMYPC Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila amounting to P295.

5. Related Party Disclosures

The Parent Company, certain subsidiaries and their shareholders, associates and joint ventures purchase products and services from one another in the normal course of business. Transactions with related parties are made at normal market prices and terms. Amounts owed by/owed to related parties are collectible/will be settled in cash. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances as at March 31, 2020 and December 31, 2019:

	Year	Revenue from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Ultimate Parent Company	March 31, 2020 December 31, 2019	P1 7	P- -	P6,666 6,663	P551 551	On demand or less than 2 to 5 years; interest and non-interest bearing	Unsecured; no impairment
Retirement Plans	March 31, 2020 December 31, 2019	71 301	- -	9,344 9,275	46 -	On demand; interest bearing	Unsecured; no impairment
Associates	March 31, 2020 December 31, 2019	625 3,054	- 178	1,763 1,879	240 251	On demand; interest and non-interest bearing	Unsecured; no impairment
	March 31, 2020 December 31, 2019	- -	- -	- -	19,300 22,474	Less than 1 to 10 years; interest bearing	Unsecured and secured
Joint Ventures	March 31, 2020 December 31, 2019	84 364	132 959	772 755	28 56	On demand; non-interest bearing	Unsecured; no impairment
Shareholders in Subsidiaries	March 31, 2020 December 31, 2019	19 38	16 57	118 113	2,376 2,375	On demand; non-interest bearing	Unsecured; no impairment
Others	March 31, 2020 December 31, 2019	530 2,521	492 2,468	510 497	7,858 7,739	On demand; non-interest bearing	Unsecured; no impairment
Total	March 31, 2020	P1,330	P640	P19,173	P30,399		
Total	December 31, 2019	P6,285	P3,662	P19,182	P33,446		

- Amounts owed by related parties consist of current and noncurrent receivables and deposits, and share in expenses.
- Amounts owed to related parties consist of trade payables, professional fees and leases. The amount owed to the Ultimate Parent Company pertains to dividend payable.
- The amounts owed to associates include interest bearing loans payable to Bank of Commerce (BOC) presented as part of "Loans payable" and "Long-term debt" accounts in the consolidated statements of financial position.

6. Property, Plant and Equipment

Property, plant and equipment consist of:

March 31, 2020 and December 31, 2019

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2019 (Audited)	P29,098	P42,912	P136,566	P168,157	P17,792	P151,554	P5,501	P85,290	P636,870
Additions	2,424	1,523	234	6,000	1,769	6,265	207	48,383	66,805
Disposals/retirement	(5)	(54)	(69)	(38)	(464)	(2,818)	(35)	(316)	(3,799)
Reclassifications	4,105	7,068	(11,426)	223	432	14,773	1,310	(38,800)	(22,315)
Acquisition of subsidiaries	1,456	270	-	-	-	716	5	79	2,526
Currency translation adjustments	(368)	(611)	(1,798)	(153)	(246)	(1,407)	(15)	(1,197)	(5,795)
December 31, 2019 (Audited)	36,710	51,108	123,507	174,189	19,283	169,083	6,973	93,439	674,292
Additions	3,287	69	477	72	187	1,026	23	11,189	16,330
Disposals/retirement	(3)	(68)	-	(2)	-	(742)	(25)	-	(840)
Reclassifications	549	1,955	140	5	119	1,108	134	(5,577)	(1,567)
Currency translation adjustments	(214)	(211)	42	(641)	(479)	(1,124)	(32)	(456)	(3,115)
March 31, 2020 (Unaudited)	40,329	52,853	124,166	173,623	19,110	169,351	7,073	98,595	685,100
Accumulated Depreciation and Amortization									
January 1, 2019 (Audited)	2,760	16,114	24,727	51,446	12,539	90,592	1,420	-	199,598
Depreciation and amortization	249	1,395	5,487	6,523	1,098	8,583	326	-	23,661
Disposals/retirement	(5)	(40)	(3)	(35)	(445)	(2,602)	(21)	-	(3,151)
Reclassifications	(20)	59	(17,794)	1	(166)	(3,060)	(86)	-	(21,066)
Acquisition of subsidiaries	116	164	-	-	-	284	3	-	567
Currency translation adjustments	(64)	(171)	(735)	(214)	(148)	(672)	(6)	-	(2,010)
December 31, 2019 (Audited)	3,036	17,521	11,682	57,721	12,878	93,125	1,636	-	197,599
Depreciation and amortization	88	378	1,396	1,151	267	2,238	94	-	5,612
Disposals/retirement	(3)	(36)	-	(2)	-	(352)	(25)	-	(418)
Reclassifications	5	6	-	-	14	(1,132)	(2)	-	(1,109)
Currency translation adjustments	(13)	(115)	17	(474)	(261)	(801)	(11)	-	(1,658)
March 31, 2020 (Unaudited)	3,113	17,754	13,095	58,396	12,898	93,078	1,692	-	200,026

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses									
January 1, 2019 (Audited)	P-	P3,139	P-	P-	P-	P9,739	P27	P -	P12,905
Impairment	-	194	-	-	-	682	-	-	876
Disposals/retirement	-	-	-	-	-	(35)	-	-	(35)
Reclassifications	-	(73)	-	-	-	-	-	-	(73)
Currency translation adjustments	-	(158)	-	-	-	(434)	(2)	-	(594)
December 31, 2019 (Audited)	-	3,102	-	-	-	9,952	25	-	13,079
Currency translation adjustments	-	(40)	-	-	-	(87)	(3)	-	(130)
March 31, 2020 (Unaudited)	-	3,062	-	-	-	9,865	22	-	12,949
Carrying Amount									
December 31, 2019 (Audited)	P33,674	P30,485	P111,825	P116,468	P6,405	P66,006	P5,312	P93,439	P463,614
March 31, 2020 (Unaudited)	P37,216	P32,037	P111,071	P115,227	P6,212	P66,408	P5,359	P98,595	P472,125

March 31, 2019

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Cost									
January 1, 2019 (Audited)	P29,098	P42,912	P136,566	P168,157	P17,792	P151,554	P5,501	P85,290	P636,870
Additions	141	288	4	375	628	641	2	10,736	12,815
Disposals/retirement	-	(15)	(2)	-	(257)	(347)	-	(82)	(703)
Reclassifications	175	2,470	-	33	189	803	17	(3,358)	329
Acquisition of subsidiaries	16	50	-	-	-	29	-	-	95
Currency translation adjustments	(252)	(71)	(73)	386	139	352	3	31	515
March 31, 2019 (Unaudited)	29,178	45,634	136,495	168,951	18,491	153,032	5,523	92,617	649,921
Accumulated Depreciation and Amortization									
January 1, 2019 (Audited)	2,760	16,114	24,727	51,446	12,539	90,592	1,420	-	199,598
Depreciation and amortization	45	327	937	1,583	629	1,944	77	-	5,542
Disposals/retirement	-	(4)	-	-	(243)	(293)	-	-	(540)
Reclassifications	(30)	709	-	(18)	15	(577)	3	-	102
Acquisition of subsidiaries	-	7	-	-	-	23	-	-	30
Currency translation adjustments	(63)	26	(29)	171	80	199	-	-	384
March 31, 2019 (Unaudited)	2,712	17,179	25,635	53,182	13,020	91,888	1,500	-	205,116

Forward

	Land and Land Improvements	Buildings and Improvements	Power Plants	Refinery and Plant Equipment	Service Stations and Other Equipment	Equipment, Furniture and Fixtures	Leasehold Improvements	Capital Projects in Progress	Total
Accumulated Impairment Losses									
January 1, 2019 (Audited)	P-	P3,139	P-	P-	P-	P9,739	P27	P-	P12,905
Disposals and reclassifications	3	(76)	-	-	-	-	-	-	(73)
Currency translation adjustments	-	48	-	-	-	104	-	-	152
March 31, 2019 (Unaudited)	3	3,111	-	-	-	9,843	27	-	12,984
Carrying Amount									
March 31, 2019 (Unaudited)	P26,463	P25,344	P110,860	P115,769	P5,471	P51,301	P3,996	P92,617	P431,821

Depreciation and amortization charged to operations amounted to P5,612 and P5,542 for the periods ended March 31, 2020 and 2019, respectively.

In 2019, property, plant and equipment was reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party.

7. Basic and Diluted Earnings Per Share (EPS)

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

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares during the period are adjusted for the effect of all potential dilutive debt or equity instruments.

Basic and diluted EPS is computed as follows:

	March 31	
	2020	2019
Net Income (loss) attributable to equity holders of the Parent Company	(P1,274)	P5,709
Less dividends on preferred shares for the period	1,700	1,829
Net income (loss) attributable to common shareholders of the Parent Company (a)	(P2,974)	P3,880
Weighted average number of common shares outstanding (in millions) - diluted (b)	2,384	2,384
Basic/ diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b)	(P1.25)	P1.63

Earnings per share are computed based on amounts in nearest peso.

As at March 31, 2020 and 2019, the Parent Company has no dilutive debt or equity instruments.

8. Dividends

The Board of Directors (BOD) of the Parent 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
Preferred				
SMCP1	January 23, 2020	March 20, 2020	April 3, 2020	1.0565625
SMC2C	January 23, 2020	March 20, 2020	April 3, 2020	1.50
SMC2D	January 23, 2020	March 20, 2020	April 3, 2020	1.11433125
SMC2E	January 23, 2020	March 20, 2020	April 3, 2020	1.18603125
SMC2F	January 23, 2020	March 20, 2020	April 3, 2020	1.27635
SMC2G	January 23, 2020	March 20, 2020	April 3, 2020	1.23361875
SMC2H	January 23, 2020	March 20, 2020	April 3, 2020	1.1854125
SMC2I	January 23, 2020	March 20, 2020	April 3, 2020	1.18790625

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
Preferred				
SMCP1	January 24, 2019	March 22, 2019	April 5, 2019	1.0565625
SMC2B	January 24, 2019	March 22, 2019	April 5, 2019	1.4296875
SMC2C	January 24, 2019	March 22, 2019	April 5, 2019	1.50
SMC2D	January 24, 2019	March 22, 2019	April 5, 2019	1.11433125
SMC2E	January 24, 2019	March 22, 2019	April 5, 2019	1.18603125
SMC2F	January 24, 2019	March 22, 2019	April 5, 2019	1.27635
SMC2G	January 24, 2019	March 22, 2019	April 5, 2019	1.23361875
SMC2H	January 24, 2019	March 22, 2019	April 5, 2019	1.1854125
SMC2I	January 24, 2019	March 22, 2019	April 5, 2019	1.18790625

On May 28, 2020, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at June 19, 2020 on the following shares to be paid on July 3, 2020, as follows:

Class of Shares	Dividend Per Share
SMC2C	1.50
SMC2D	1.11433125
SMC2E	1.18603125
SMC2F	1.27635
SMC2G	1.23361875
SMC2H	1.1854125
SMC2I	1.18790625

9. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

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

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

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

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

The outstanding derivative instruments of the Group such as commodity and currency options, forwards and swaps are intended mainly for risk management

purposes. The Group uses derivatives to manage its exposures to foreign currency, interest rate and commodity price risks arising from the operating and financing activities.

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

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Group's corporate governance process relating to the: (a) quality and integrity of the consolidated financial statements and financial reporting process and the systems of internal accounting and financial controls; (b) performance of the internal auditors; (c) annual independent audit of the consolidated financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; (d) compliance with tax, legal and regulatory requirements; (e) evaluation of management's process to assess and manage the enterprise risk issues; and (f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Group and other corporate disclosures as may be required by the Securities and Exchange Commission and/or the Philippine Stock Exchange, Inc.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Group and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Group. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings and investment securities. Investment securities acquired or borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, investment securities acquired or borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. The management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the

deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios.

The Group uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Group assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

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

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

Interest Rate Risk Table

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

March 31, 2020	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P 24,738	P53,615	P71,758	P48,718	P92,079	P140,122	P431,030
Interest rate	4.9925% - 9.885%	4.0032% - 9.885%	5.1923% - 9.885%	4.5219% - 9.885%	4.63% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,547	2,724	7,629	27,333	1,217	14,574	56,024
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.875% - 5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	2,063	2,690	3,795	2,112	2,695	11,545	24,900
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	26,638	27,286	73,880	52,826	113,533	4,796	298,959
Interest rate	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	
	P55,986	P86,315	P157,062	P130,989	P209,524	P171,037	P810,913
December 31, 2019	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P24,515	P46,288	P65,491	P53,914	P88,870	P138,315	P417,393
Interest rate	4.9925% - 9.885%	4.0032% - 9.885%	4.8243% - 9.885%	4.5219% - 9.885%	4.63% - 9.885%	5.1792% - 9.885%	
Foreign currency-denominated (expressed in Philippine peso)	2,467	2,638	1,891	32,855	1,117	13,368	54,336
Interest rate	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	4.7776% - 5.5959%	5.5959%	5.5959%	
Floating Rate							
Philippine peso-denominated	1,034	1,719	2,714	1,042	162	12,000	18,671
Interest rate	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	BVAL + margin or BSP overnight rate, whichever is higher	
Foreign currency-denominated (expressed in Philippine peso)	16,394	37,404	26,375	100,241	13,510	5,825	199,749
Interest rate	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	LIBOR/applicable reference rate + margin	
	P44,410	P88,049	P96,471	P188,052	P103,659	P169,508	P690,149

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P3,239 and P2,184 for the period ended March 31, 2020 and for the year ended December 31, 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 Group's other comprehensive income.

Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Group's revenues. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Group enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Group assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the cumulative dollar-offset and hypothetical derivative method.

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

- the effect of the counterparty's and the Group's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents is as follows:

	March 31, 2020		December 31, 2019	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets				
Cash and cash equivalents	US\$5,564	P281,895	US\$3,471	P175,824
Trade and other receivables	832	42,217	862	43,637
Prepaid expenses and other current assets	37	1,889	11	545
Noncurrent receivables	53	2,668	20	1,006
	6,486	328,669	4,364	221,012
Liabilities				
Loans payable	230	11,633	90	4,503
Accounts payable and accrued expenses	1,683	85,289	1,592	80,579
Long-term debt (including current maturities)	7,004	354,983	5,018	254,085
Lease liabilities (including current portion)	1,300	65,847	1,368	69,286
Other noncurrent liabilities	30	1,561	177	8,974
	10,247	519,313	8,245	417,427
Net foreign currency-denominated monetary liabilities	(US\$3,761)	(P190,644)	(US\$3,881)	(P196,415)

The Group reported net gains (losses) on foreign exchange amounting to (P380) and P178 for the periods ended March 31, 2020 and 2019 respectively, with the translation of its foreign currency-denominated assets and liabilities (Note 4). These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	US Dollar to Philippine Peso
March 31, 2020	50.68
December 31, 2019	50.64
March 31, 2019	52.50
December 31, 2018	52.58

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to translation of results and financial position of foreign operations):

	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
March 31, 2020				
Cash and cash equivalents	(P5,151)	(P3,989)	P5,151	P3,989
Trade and other receivables	(297)	(504)	297	504
Prepaid expenses and other current assets	(29)	(36)	29	36
Noncurrent receivables	(1)	(52)	1	52
	(5,478)	(4,581)	5,478	4,581
Loans payable	80	206	(80)	(206)
Accounts payable and accrued expenses	644	880	(644)	(880)
Long-term debt (including current maturities)	6,170	5,153	(6,170)	(5,153)
Lease liabilities (including current portion)	1,275	917	(1,275)	(917)
Other noncurrent liabilities	4	13	(4)	(13)
	8,173	7,169	(8,173)	(7,169)
	P2,695	P2,588	(P2,695)	(P2,588)
	P1 Decrease in the US Dollar Exchange Rate		P1 Increase in the US Dollar Exchange Rate	
	Effect on Income before Income Tax	Effect on Equity	Effect on Income before Income Tax	Effect on Equity
December 31, 2019				
Cash and cash equivalents	(P3,041)	(P2,554)	P3,041	P2,554
Trade and other receivables	(304)	(545)	304	545
Prepaid expenses and other current assets	(8)	(8)	8	8
Noncurrent receivables	(18)	(14)	18	14
	(3,371)	(3,121)	3,371	3,121
Loans payable	-	90	-	(90)
Accounts payable and accrued expenses	1,010	1,288	(1,010)	(1,288)
Long-term debt (including current maturities)	4,220	3,752	(4,220)	(3,752)
Finance lease liabilities (including current portion)	1,345	965	(1,345)	(965)
Other noncurrent liabilities	151	160	(151)	(160)
	6,726	6,255	(6,726)	(6,255)
	P3,355	P3,134	(P3,355)	(P3,134)

Exposures to foreign exchange rates vary during the period depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Commodity Price Risk

Commodity price risk is the risk that future cash flows from a financial instrument will fluctuate because of changes in commodity prices.

The Group enters into various commodity derivatives to manage its price risks on strategic commodities. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Through hedging, prices of commodities are fixed at levels acceptable to the Group, thus protecting raw material cost and preserving margins. For hedging transactions, if prices go down, hedge positions may show marked-to-market losses; however, any loss in the marked-to-market position is offset by the resulting lower physical raw material cost.

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

Commodity Swaps, Futures and Options. Commodity swaps, futures and options are used to manage the Group's exposures to volatility in prices of certain commodities such as fuel oil, crude oil, aluminum, soybean meal and wheat.

Commodity Forwards. The Group enters into forward purchases of various commodities. The prices of the commodity forwards are fixed either through direct agreement with suppliers or by reference to a relevant commodity price index.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Group also uses derivative instruments such as forwards and swaps to manage liquidity.

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

March 31, 2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P384,316	P384,316	P384,316	P -	P -	P -
Trade and other receivables - net	134,637	134,637	134,637	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	2,657	2,657	2,360	94	203	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	283	283	283	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,734	41,742	43	83	46	41,570
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	286	307	120	31	156	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets" account)	28,901	29,541	-	393	25,666	3,482
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	14,404	14,404	6,089	8,315	-	-
Financial Liabilities						
Loans payable	169,361	170,113	170,113	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, infrastructure retirement obligation (IRO), deferred income and other current non-financial liabilities)	143,445	143,445	143,445	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	4,401	4,401	2,844	1,455	102	-
Long-term debt (including current maturities)	801,671	974,684	93,096	118,999	563,836	198,753
Lease liabilities (including current portion)	135,648	170,096	32,115	32,095	65,015	40,871
Other noncurrent liabilities (excluding noncurrent retirement liabilities, IRO, ARO and other noncurrent non-financial liabilities)	11,766	11,776	-	1,054	9,491	1,231

December 31, 2019	Carrying Amount	Contractual Cash Flow	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P286,457	P286,457	P286,457	P -	P -	P -
Trade and other receivables - net	136,488	136,488	136,488	-	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	1,158	1,158	917	91	150	-
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	284	284	284	-	-	-
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,907	41,915	44	82	46	41,743
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	257	277	79	71	127	-
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	28,784	29,436	-	379	25,532	3,525
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	12,423	12,423	6,256	6,167	-	-
Financial Liabilities						
Loans payable	169,492	170,169	170,169	-	-	-
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	173,239	173,239	173,239	-	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	3,122	3,122	1,678	1,355	89	-
Long-term debt (including current maturities)	682,804	852,506	80,764	120,716	451,819	199,207
Finance lease liabilities (including current portion)	142,248	171,108	35,131	31,509	68,450	36,018
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,297	11,308	-	971	9,219	1,118

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references.

Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

Investment in Debt Instruments

The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

Credit Quality

In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and non-current receivables and deposits.

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

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	March 31, 2020	December 31, 2019
Cash and cash equivalents (excluding cash on hand)	P383,522	P283,507
Trade and other receivables - net	134,637	136,488
Derivative assets	2,657	1,158
Investment in debt instruments at FVOCI	162	163
Investment in debt instruments at amortized cost	286	257
Noncurrent receivables and deposits - net	28,901	28,784
Restricted cash	14,404	12,423
	P564,569	P462,780

The table below presents the Group's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month expected credit loss (ECL) or lifetime ECL. Assets that are credit-impaired are separately presented.

March 31, 2020						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P383,522	P -	P -	P -	P -	P383,522
Trade and other receivables	134,637	-	12,704	-	-	147,341
Derivative assets	-	-	-	2,295	362	2,657
Investment in debt instruments at FVOCI	-	-	-	-	162	162
Investment in debt instruments at amortized cost	111	175	-	-	-	286
Noncurrent receivables and deposits	-	28,901	708	-	-	29,609
Restricted cash	6,089	8,315	-	-	-	14,404

December 31, 2019						
	Financial Assets at Amortized Cost			Financial Assets at FVPL	Financial Assets at FVOCI	Total
	12-Month ECL	Lifetime ECL not Credit Impaired	Lifetime ECL Credit Impaired			
Cash and cash equivalents (excluding cash on hand)	P283,507	P -	P -	P -	P -	P283,507
Trade and other receivables	136,488	-	12,688	-	-	149,176
Derivative assets	-	-	-	882	276	1,158
Investment in debt instruments at FVOCI	-	-	-	-	163	163
Investment in debt instruments at amortized cost	71	186	-	-	-	257
Noncurrent receivables and deposits	-	28,784	724	-	-	29,508
Restricted cash	6,256	6,167	-	-	-	12,423

The aging of receivables is as follows:

March 31, 2020	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P52,964	P24,357	P13,748	P91,069
Past due:				
1 - 30 days	12,139	963	343	13,445
31 - 60 days	3,260	889	32	4,181
61 - 90 days	909	582	3	1,494
Over 90 days	11,764	24,345	1,042	37,151
	P81,036	P51,136	P15,168	P147,340

December 31, 2019	Amounts Owed by Related Parties			Total
	Trade	Non-trade		
Current	P63,321	P23,884	P13,826	P101,031
Past due:				
1 - 30 days	8,510	1,972	390	10,872
31 - 60 days	2,415	448	14	2,877
61 - 90 days	853	1,329	23	2,205
Over 90 days	11,695	19,572	924	32,191
	P86,794	P47,205	P15,177	P149,176

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period. There are no significant changes in the credit quality of the counterparties during the period.

The Group's cash and cash equivalents, derivative assets, financial assets at FVOCI, financial assets at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.
- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.
- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and equity reserves are excluded from capital for purposes of capital management.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group, except for BOC which is subject to certain capitalization requirements by the Bangko Sentral ng Pilipinas, is not subject to externally imposed capital requirements.

10. Financial Assets and Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

The Group's cash and cash equivalents, trade and other receivables, investment in debt instruments at amortized cost, noncurrent receivables and deposits, and restricted cash are included under this category.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Financial Assets at FVOCI. Investment in debt instruments is measured at FVOCI if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Dividends earned on holding an investment in equity instrument are recognized as dividend income in the consolidated statements of income when the right to receive the payment has been established, unless the dividend clearly represents a recovery of the part of the cost of the investment. When investment in equity

instruments at FVOCI is derecognized, the related accumulated gains or losses previously reported in the consolidated statements of changes in equity are never reclassified to the consolidated statements of income.

The Group's investments in equity and debt instruments at FVOCI are classified under this category.

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

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

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

The Group's derivative assets that are not designated as cash flow hedge and investments in equity instruments at FVPL are classified under this category.

Financial Liabilities

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

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

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

The Group's derivative liabilities that are not designated as cash flow hedge are classified under this category.

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

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

The Group’s liabilities arising from its trade or borrowings such as loans payable, accounts payable and accrued expenses, long-term debt, lease liabilities and other noncurrent liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

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

Impairment of Financial Assets

The Group recognizes allowance for ECL on financial assets at amortized cost and investments in debt instruments at FVOCI.

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

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

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

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

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

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

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

The Group directly reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the contractual cash flows on a financial asset, either partially or in full. This is generally the case when the Group

determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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

Classification of Financial Instruments between Liability and Equity

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

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

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

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

Offsetting Financial Instruments

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

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

	March 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P384,316	P384,316	P286,457	P286,457
Trade and other receivables - net	134,637	134,637	136,488	136,488
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	2,657	2,657	1,158	1,158
Financial assets at FVPL (included under "Prepaid expenses and other current assets" account)	283	283	284	284
Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	41,734	41,734	41,907	41,907
Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts)	286	286	257	257
Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account)	28,901	28,901	28,784	28,784
Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts)	14,404	14,404	12,423	12,423
Financial Liabilities				
Loans payable	169,361	169,361	169,492	169,492
Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities)	143,445	143,445	173,239	173,239
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	4,401	4,401	3,122	3,122
Long-term debt (including current maturities)	801,671	849,194	682,804	735,657
Lease liabilities (including current portion)	135,648	135,648	142,248	142,248
Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other noncurrent non-financial liabilities)	11,766	11,766	11,297	11,297

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

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

Derivatives. The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

Financial Assets at FVPL and Financial Assets at FVOCI. The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

Loans Payable and Accounts Payable and Accrued Expenses. The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 3.1% to 4.9% and 3.1% to 4.5% as at March 31, 2020 and December 31, 2019, respectively. The discount rates used for foreign currency-denominated loans range from 0.2% to 1.1% and 1.6% to 2.0% as at March 31, 2020 and December 31, 2019, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

Derivative Financial Instruments and Hedge Accounting

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

Freestanding Derivatives

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

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

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

The Group designates only the intrinsic value of options and the change in fair value of the spot element of forward contracts as the hedging instrument in cash flow

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

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

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

Embedded Derivatives

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

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

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

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

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

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

Derivative Instruments Accounted for as Cash Flow Hedges

The Group designated the following derivative financial instruments as cash flow hedges:

March 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps				
Notional amount	US\$155	US\$132	US\$126	US\$413
Average strike rate	P52.54 to P56.15	P52.42 to P55.40	P52.42 to P56.15	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US\$20	US\$40	US\$310	US\$370
Strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	3.60% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$ -	US\$30	US\$75	US\$105
Interest rate	-	0.44% to 1.99%	0.44% to 1.99%	
December 31, 2019	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk				
Call spread swaps:				
Notional amount	US\$129	US\$186	US\$133	US\$448
Average strike rate	P52.71 to P55.55	P52.59 to P56.15	P52.59 to P56.15	
Foreign currency and interest rate risk				
Cross currency swap				
Notional amount	US\$20	US\$40	US\$280	US\$340
Strike rate	P47.00 to P57.50	P47.00 to P57.00	P47.00 to P56.67	
Fixed interest rate	4.19% to 5.75%	4.19% to 5.75%	4.19% to 5.80%	
Interest rate risk:				
Interest rate collar:				
Notional amount	US\$ -	US\$30	US\$75	US\$105
Interest rate	-	0.44% to 1.99%	0.44% to 1.99%	

The following are the amounts relating to hedged items:

March 31, 2020	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P65	P -	(P41)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	830	(1,356)	722
Interest rate risk:			
US dollar-denominated borrowings	38	(27)	-
December 31, 2019	Change in Fair Value Used for Measuring Hedge Ineffectiveness	Hedging Reserve	Cost of Hedging Reserve
Foreign currency risk			
US dollar-denominated borrowings	P200	P -	(P178)
Foreign currency and interest rate risks			
US dollar-denominated borrowings	1,224	(1,009)	499
Interest rate risk:			
US dollar-denominated borrowings	(7)	5	-

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

March 31, 2020	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument Is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$413	P300	P260	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P65)	P112	P-	P65	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	370	62	1,660	Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(830)	282	67	37	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	105	-	38	Accounts payable and accrued expenses and Other noncurrent liabilities	(38)	-	-	-	
December 31, 2019	Notional Amount	Carrying Amount		Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included	Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income	Cost of Hedging Recognized in Other Comprehensive Income	Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income	Line Item in the Consolidated Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$448	P231	P356	Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities	(P200)	(P435)	P -	P307	Interest expense and other financing charges, and Other income (charges) - net
Foreign currency and interest rate risk: Cross currency swap	340	37	1,475	Other noncurrent assets -net, Accounts payable and accrued expenses and Other noncurrent liabilities	(1,224)	50	721	65	Interest expense and other financing charges, and Other income (charges) - net
Interest rate risk: Interest rate collar	105	7	-	Other noncurrent assets - net	7	-	-	-	

No ineffectiveness was recognized in the 2020 and 2019 consolidated statement of income.

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

	March 31, 2020		December 31, 2019	
	Hedging Reserve	Cost of Hedging Reserve	Hedging Reserve	Cost of Hedging Reserve
Beginning balance	(P1,004)	P321	(P538)	P342
Changes in fair value:				
Foreign currency risk	-	112	-	(435)
Foreign currency risk and interest rate risk	(563)	282	(1,394)	50
Interest rate risk	(45)	-	7	-
Amount reclassified to profit or loss	67	102	721	372
Tax effect	162	(136)	200	(8)
Ending balance	(P1,383)	P681	(P1,004)	P321

Derivative Instruments not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

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

Interest Rate Swap

The Group has outstanding interest rate swap with notional amount of US\$300 as at December 31, 2019. Under the agreement, the Group receives quarterly floating interest rate based on LIBOR and pays annual fixed interest rate adjusted based on a specified index up to March 2020. The negative fair value of the swap amounted to P730 as at December 31, 2019. The Group has no outstanding interest rate swap as at March 31, 2020.

Currency Forwards

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US\$793 and US\$770 as at March 31, 2020 and December 31, 2019, respectively, and with various maturities in 2020. The net negative fair value of these currency forwards amounted to P106 and P175 as at March 31, 2020 and December 31, 2019, respectively.

Currency Options

The Group has outstanding currency options with an aggregate notional amount of US\$1,330 and US\$1,278 as at March 31, 2020 and December 31, 2019, respectively, and with various maturities in 2020. The net negative fair value of these currency options amounted to P529 and P53 as at March 31, 2020 and December 31, 2019, respectively.

Commodity Swaps

The Group has outstanding swap agreements covering its aluminum requirements, with various maturities in 2020. Under the agreement, payment is made either by the Group or its counterparty for the difference between the agreed fixed price of aluminum and the price based on the relevant price index. The outstanding equivalent notional quantity covered by the commodity swaps is 900 metric tons as at March 31, 2020. The negative fair value of these swaps amounted to P8 as at March 31, 2020. The Group has minimal outstanding commodity swaps on the purchase of aluminum as at December 31, 2019.

The Group has outstanding swap agreements covering its oil requirements, with various maturities in 2020. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding equivalent notional quantity covered by the commodity swaps were 22.7 and 12.5 million barrels as at March 31, 2020 and December 31, 2019, respectively. The net positive fair value of these swaps amounted to P584 and P331 as at March 31, 2020 and December 31, 2019, respectively.

The Group has outstanding fixed swap agreements covering its coal requirements, with various maturities in 2020. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant monthly average index price. The outstanding notional quantity covered by the commodity swaps is 45,000 and 233,000 metric tons as at March 31, 2020 and December 31, 2019, respectively. The net negative fair value of these swaps amounted to P5 and P3 as at March 31, 2020 and December 31, 2019, respectively.

Commodity Options

As at March 31, 2020 the Group has outstanding three-way options entered as hedge of forecasted purchases of crude oil with a notional quantity of 1.5 million barrels. The net negative fair value of these commodity options amounted to P256 as at March 31, 2020. As at December 31, 2019, the Company has no outstanding three-way options entered as hedge of forecasted purchases of crude oil.

Embedded Derivatives

The Group's embedded derivatives include currency forwards embedded in non-financial contracts.

Embedded Currency Forwards

The total outstanding notional amount of currency forwards embedded in non-financial contracts amounted to US\$205 and US\$188 as at March 31, 2020 and December 31, 2019, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures. The embedded forwards are not clearly and closely related to their respective host contracts. The positive fair value of these embedded currency forwards amounted to P172 and P220 as at March 31, 2020 and December 31, 2019, respectively.

The Group recognized marked-to-market gains (losses) from freestanding and embedded derivatives amounting to P2,150, (P1,270) and (P3,308) for the periods ended March 31, 2020 and 2019, and December 31, 2019, respectively.

Fair Value Changes on Derivatives

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

	March 31, 2020	December 31, 2019
Balance at beginning of year	(P1,964)	(P950)
Net change in fair value of derivatives:		
Designated as accounting hedge	(226)	(1,807)
Not designated as accounting hedge	2,202	(3,054)
	12	(5,811)
Less fair value of settled instruments	1,756	(3,847)
Balance at end of year	(P1,744)	(P1,964)

Fair Value Measurements

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

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

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

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

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

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

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

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

Fair Value Hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

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

	March 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial Assets						
Derivative assets	P -	P2,657	P2,67	P -	P1,158	P1,158
Financial assets at FVPL	-	283	283	-	284	284
Financial assets at FVOCI	789	40,945	41,734	972	40,935	41,907
Financial Liabilities						
Derivative liabilities	-	4,401	4,401	-	3,122	3,122

The Group has no financial instruments valued based on Level 3 as at March 31, 2020 and December 31, 2019. For the period ended March 31, 2020 and for the year ended December 31, 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.

11. Other Matters

- a. There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- b. There were no material changes in estimates of amounts reported in prior financial years.
- c. There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- d. There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- e. There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for Note 24 (c) and Note 44 (a) of the 2019 Audited Consolidated Financial Statements, that remain outstanding as at March 31, 2020. No material contingencies and any other events or transactions exist that are material to an understanding of the current interim period.

- f. Except for the Prepared and Packaged Food, and Protein businesses of San Miguel Food and Beverage, Inc., which consistently generate higher revenues during the Christmas holiday season, the effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.
- g. There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period ended March 31, 2020.
- h. The Group's material commitments for capital expenditure projects have been approved during the current year but are still ongoing and not yet completed as at end of March 31, 2020. These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

SAN MIGUEL CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

The following are the major performance measures that San Miguel Corporation and Subsidiaries (the Group) uses. Analyses are employed by comparisons and measurements based on the financial data as of March 31, 2020 and December 31, 2019 for liquidity, solvency and profitability ratios and for the periods ending March 31, 2020 and 2019 for operating efficiency ratios.

	March 2020	December 2019
<u>Liquidity:</u>		
Current Ratio	1.70	1.46
Quick Ratio	1.22	0.96
<u>Solvency:</u>		
Debt to Equity Ratio	2.30	2.16
Asset to Equity Ratio	3.30	3.16
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	4.36%	6.36%
Interest Rate Coverage Ratio	1.30	2.38
Return on Assets	1.98%	2.78%
	Period Ended March 31	
	2020	2019
<u>Operating Efficiency:</u>		
Volume Growth	(9%)	8%
Revenue Growth	(15%)	7%
Operating Margin	5%	12%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$

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

* Annualized for quarterly reporting.



MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation (“SMC” or “Parent Company”) and its subsidiaries (collectively referred to as the “Group”) as at and for the period ended March 31, 2020 (with comparative figures as at December 31, 2019 and for the period ended March 31, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. 2020 SIGNIFICANT TRANSACTIONS

MERGER OF SAN MIGUEL YAMAMURA PACKAGING CORPORATION (SMYPC) AND SAN MIGUEL YAMAMURA ASIA CORPORATION (SMYAC)

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger. The Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC on October 23 and December 20, 2019, respectively. By virtue of the said merger, the entire assets and liabilities of SMYAC were transferred to and absorbed by SMYPC. The merger was effective on March 1, 2020.

As at May 28, 2020, SMYPC is still in the process of completing the requirements for the application with the Bureau of Internal Revenue for a tax-free exchange certification/ruling on the merger.

AVAILMENT OF LONG-TERM DEBT TO FINANCE INVESTMENT / CAPITAL EXPENDITURE

- Parent Company

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

- Masinloc Power Partners Co. Ltd. (MPPCL)

On March 31, 2020, MPPCL drew US\$43 million from the US\$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 megawatts (Unit 3 of Masinloc Power Plant) coal-fired plant within MPPCL.

existing facilities. The loan is divided into fixed interest tranche and floating interest tranche with maturities up to December 2030.

- **Atlantic Aurum Investments Philippines Corporation (AAIPC)**

On March 16, 2020, AAIPC availed the amount of P2,000 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. Proceeds of the loan were mainly used for the construction of North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3) Project. The loan is payable in 39 quarterly installments up to December 16, 2029 and subject to fixed interest rate.

ISSUANCE OF BONDS AND REDEMPTION OF PREFERRED SHARES

Issuance of P15,000 Million Fixed-Rate Peso-Denominated Bonds and Redemption of Perpetual Series “2” Preferred Shares by San Miguel Food and Beverage, Inc. (SMFB)

On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 million fixed-rate bonds, consisting of five-year Series A Bonds due in 2025 and seven-year Series B Bonds due in 2027.

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

The Series A Bonds and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds were used to redeem the outstanding perpetual series “2” preferred shares on March 12, 2020 and payment of transaction-related fees, costs and expenses.

ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

Issuance of SPCS by SMC Global Power Holdings Corp. (SMC Global)

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

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

PAYMENT OF OTHER MATURING OBLIGATIONS

During the first quarter of 2020, the Group paid P3,584 million of maturing obligations funded by cash generated from operations.

Petron Corporation (Petron), Infrastructure, Energy and other businesses paid a total of P1,411 million, P1,386 million, P586 million and P201 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

Consolidated revenues for the first quarter of 2020 ended at P214,066 million from P250,924 million of the same period in 2019 while consolidated operating income was at P11,728 million from P31,106 million. As expected, the impact on consolidated operating income was significant due to the volumes lost in March, the inventory loss incurred by Petron, the increased alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the pandemic especially costs relating to all employees and direct third party providers whose salaries and allowances were paid in full to ensure their financial well-being and that of their families while they stay safe at home.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) remained healthy at P26,972 million lower than last year's P41,038 million even with the EBITDA of the Food Division under San Miguel Food and Beverage growing more than double compared to the same period last year.

Lower cost of sales by 9% to P181,429 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and San Miguel Food and Beverage, and (b) Energy business' lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant, lower average cost of coal prices for Sual and Masinloc Power Plants as coal indices continue to decline, and lower average cost of spot purchases.

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

The decrease in equity in net earnings (losses) was mainly due to the share in net losses of Angat Hydropower Corporation (Angat Hydro) in 2020 versus net income in 2019, offset by share in net income of Manila North Harbour Port, Inc. in 2020.

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

Other income in 2020 consists mainly of: (a) Petron's gain on derivatives resulting from currency and commodity hedging and (b) Energy business' income from liquidated damages from a third party contractor which compensates the Group for any lost margins from the delay in the completion and start of commercial operations of Unit 3 of the Masinloc Power Plant; partly offset by SMYPC Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila.

The lower income tax expense was primarily due to: (a) Petron's tax benefit from loss before tax in 2020 versus income before tax in 2019 and (b) lower taxable income of San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI); partly offset by the (c) higher provision for income tax recognized by the Food division.

Consolidated net income amounted to P1,093 million, significantly lower than last year.

Excluding the effect of foreign exchange translations and nonrecurring losses, recurring net income was P2,226 million in 2020 compared to the 2019 recurring net income of P12,689 million.

Share of non-controlling interests (NCI) on the Group's net income decreased in 2020 mainly due to net loss of Petron in 2020 versus net income in 2019 and lower net income of SMB.

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

1. FOOD AND BEVERAGE

SMFB's consolidated revenue for the first three months amounted to P69,018 million, 9% lower than the same period in 2019 which was mainly brought about by the slowdown in the Beer and Spirits divisions sales during the Enhanced Community Quarantine (ECQ) period, heightened by the liquor ban implemented by some local government units (LGUs) in Metro Manila and key cities in Luzon. This was partly offset by higher sales from the Food division, particularly from its Prepared and Packaged Food segment.

Coupled with the increase in excise taxes on Beer and Spirits divisions at the beginning of the year, consolidated operating income declined by 20% to P8,643 million. Consolidated net income, likewise, dropped by 21% to P5,826 million.

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

SMB posted consolidated revenues of P28,404 million, 18% lower versus last year, largely on the back of lower volumes at 58.3 million cases for the first quarter.

Operating income and net income both declined by 44% versus last year to P5,383 million and P3,770 million, respectively.

Domestic Operations

Domestic operations posted revenues of P25,752 million, 18% lower versus last year. Beer volumes were up during the first two months this year but the ECQ impacted on sales which forced closure of all on-premise outlets, limited transport activities and banning of selling of liquor products by LGUs in Metro Manila and key cities in Luzon. This resulted to volumes dropping by 24% to 53.2 million cases for the first quarter.

International Operations

Similarly, SMB's international operations managed countries were not spared by the Coronavirus Disease 2019 (COVID-19) pandemic with governments implementing their respective containment measures resulting to decline in consumption and shutdown of some production operations.

b. Spirits Division

GSMI had a good start in 2020 up until February recording double digit volume growth from the same period last year. The ECQ and liquor bans in March, however, affected sales volume in the first quarter ending at 8.9 million cases, 14% less than last year.

The strong performance in the first two months helped cushion the decline in sales volume in March resulting in first quarter revenues of P7,453 million and operating income of P686 million, 10% and 30% lower than last year, respectively.

Net income amounted to P474 million, 23% lower versus the same period last year.

c. Food Division

San Miguel Foods generated consolidated revenues of P33,161 million, 2% higher than the same period last year, driven by the strong performance of its refrigerated meats, grocery products, dairy and spreads segments.

We saw a significant spike in sales in most of our food products as consumers stocked up on essential supplies leading up to and during the ECQ period. In particular, sales of the Prepared and Packaged Food segment posted double digit growth as consumers purchased essential items in the processed meats and dairy and cheese segments.

The Protein segment, composed of poultry and fresh meats, saw revenues grow by 3% compared to the same period last year brought about by improvement in average selling prices of chicken year-on-year as the poultry industry recovered from the widespread glut. The growth was partly offset by the decline in requirements as the number of retail outlets was reduced and most food service outlets were closed during the ECQ period.

The Animal Nutrition and Health segment revenues declined by 14% primarily due to the impact of the African Swine Fever outbreak and slowdown in demand for broiler feeds.

The Prepared and Packaged segment recorded the highest revenue growth at 16% mainly driven by strong demand from our refrigerated and canned meat products, as well as for butter, margarine and cheese, and coffee products.

The Flour segment revenues posted a 2% growth despite the decline in sales during the ECQ period with a number of our institutional customers, which include bakeshops, fast food, restaurant chains, and dealers, had to either stop or limit their operations.

The Food division ended the quarter with P2,585 million in operating income, more than 8 times higher than the same period last year, with the recovery of poultry prices and more stable raw material costs.

As a result, net income amounted to P1,636 million, significantly higher than last year.

2. PACKAGING

The Packaging business' performance for the 1st quarter also reflected the effect of the ECQ. Sales revenues amounted to P8,496 million, 4% lower than 2019. Decline was mainly due to reduced orders from the Food and Beverage sectors while the health and pharmaceutical customers brought in steady volumes.

Operating income amounted to P570 million, 31% lower than 2019.

3. ENERGY

SMC Global's consolidated revenues for the first three months amounted to P28,298 million, 18% lower versus last year with off-take volumes at 6,600 gigawatt hours (gwh) also declining by 3% compared to the same period last year. This was primarily due to the deferral of the commencement to supply Manila Electric Company (Meralco) with the 290 MW mid-merit power supply agreement which was only issued the provisional approval of the Energy Regulatory Commission last March 16 and the deferral of the 260 MW extended contract with Masinloc which remains pending to-date. Moreover, the new Meralco baseload power supply

agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts which expired on December 25, 2019.

Operating income and net income amounted to P7,823 million and P3,221 million, 21% and 10% lower than same period last year, respectively.

4. FUEL AND OIL

Petron continues to be faced with challenges during the 1st quarter. The ECQ restricted mobility in and out of the country curtailing economic activities affecting fuel demand.

Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand drop caused by the COVID-19 pandemic. The price of benchmark crude Dubai dropped by 66% to \$23 per barrel by end of March 2020 from \$67 per barrel end of December 2019, which resulted in successive rollbacks in pump prices.

As a result, Petron's consolidated revenues amounted to P104,623 million, down by 16% versus 2019 mainly on account of the decline in average selling price of fuel and lower volumes from both the Philippines and Malaysia ending at 24.7 million barrels, down 6%, from 26.3 million barrels recorded in the previous year.

Petron incurred an operating loss of P4,410 million, compared to 2019's operating income of P4,865 million and net loss of P4,877 million compared to the net income of P1,303 million the previous year, due to significant inventory losses resulting from the collapse of crude oil price brought by demand contraction in both the local and international markets.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads for the first quarter recorded a 15% volume decline as the ECQ restricted travel movements throughout Luzon where our toll roads are located. The company also chose to provide free toll fees to all frontliners passing through the operating toll roads. Thus, consolidated revenues of P4,661 million was down 27% and operating income stood at P1,772 million.

2019 vs. 2018

The Group's consolidated sales revenue for the first quarter of 2019 amounted to P250,924 million, 7% higher than 2018, mainly driven by the higher volume and favorable selling prices from most of the major businesses.

Higher cost of sales by 9% to P199,795 million resulted primarily from the volume growth and increase in costs and prices of raw materials of the Energy business, the Food division and domestic operations of SMB under San Miguel Food and Beverage.

Selling and administrative expenses increased mainly due to higher depreciation and amortization, advertising and promotions, taxes and licenses, contracted services and distribution costs.

The Group's consolidated operating income amounted to P31,106 million, 5% lower than 2018, mainly due to Petron, which continue to be affected by the prevailing movements in world crude oil prices eroding refining margins, and the Food division, which has also been affected by a sharp decline in poultry prices and rising raw material costs.

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

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

The increase in equity in net earnings primarily represents the share of SMC Global on the net income of Angat Hydro in 2019 compared to share in net loss in 2018.

The gain on sale of property and equipment in 2019 and 2018 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for the construction of LRT / MRT project.

The decrease in other charges was primarily due to the appreciation of the Philippine Peso in March 2019 compared to the depreciation of the Philippine Peso in March 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018. This was partly offset by hedging loss on currency and commodity in 2019, compared to hedging gain on currency and hedging loss on commodity in 2018.

The higher income tax expense was primarily due to the Parent Company's recognition of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018, mainly from the revaluation of long-term.

Consolidated net income amounted to P12,825 million in 2019.

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

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

1. FOOD AND BEVERAGE

SMFB posted consolidated revenues amounting to P75,655 million for the first quarter of 2019, 14% higher than P66,087 million reported in the same period in 2018. Volumes and revenues remained strong across Beer, Spirits and Food divisions. Consolidated operating income of P10,810 million in 2019, however, ended slightly lower than 2018 on account of the sharp decline in chicken selling prices and continuous rising cost of raw materials that affected the Food division.

Net income grew 1% to P7,363 million from 2018.

a. Beer and NAB Division

SMB reinforced its continuous strong volumes and revenue growth during the first quarter of 2019. Volumes reached 76.4 million cases, 18% higher than 2018, while revenues also grew 17% at P34,832 million.

Domestic Operations

Domestic volumes grew 19% compared to 2018 mainly driven by strong consumption across the country with Red Horse and San Miguel Pale Pilsen sustaining their position as SMB's top selling brands. This has been backed by consistent and engaging consumption-generating initiatives and defense programs boosting further the equity strength and market leadership of the SMB brands.

International Operations

SMB's international operations, on the other hand, posted volume and revenue growth during the first three months. Exports, Hong Kong, Indonesia and Vietnam led volume growths, which were partly offset by lower volumes in North China and Thailand.

Consequently, SMB's consolidated operating income rose to P9,556 million, 15% higher than 2018, mainly driven by strong volumes offsetting the effect of higher operating costs and increase in excise tax effective January 1, 2019.

Net income grew to P6,747 million, up 19% from 2018.

b. Spirits Division

GSMI sustained its strong growth momentum in the first quarter of 2019 with sales volume reaching 10.4 million cases, 24% higher than 2018's level. This is the result of continuous sales efforts, complimented by GSMI's on-going nationwide "*Pilipino Ako, Ginebra Ako*" thematic campaign. Vino Kulafu also helped boost growth through its "*Lakas sa Magandang Bukas*" advertising campaigns and on-ground activations in the Visayas and Mindanao regions.

This resulted in revenues of P8,265 million, 28% higher than the same period in 2018. Operating income and net income posted significant growth of 122% and 141% at P986 million and P616 million from 2018, respectively.

c. Food Division

San Miguel Foods' consolidated revenues rose to P32,558 million, 9% higher than 2018. All businesses registered revenue growth brought about by higher sales volume and better selling prices.

Revenues from the Prepared and Packaged Food segment, expanded by 16% mainly from its core products - Tender Juicy, Pure Foods Corned Beef, Nuggets and Luncheon Meat, and Magnolia breadfill and spreads.

The Animal Nutrition and Health segment revenues grew 8% due to strong performance of high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

The Protein segment revenue also grew by 6%, backed by higher chicken sales from its stable-priced channels, despite the significant industry-wide drop in chicken selling prices.

Coupled with rising cost of raw materials and increased selling and administrative expenses, San Miguel Foods' operating income ended at P284 million, lower than same period in 2018.

Net income, likewise, ended lower at P11 million.

2. PACKAGING

The Packaging business' sales revenues during the first three months reached P8,840 million, 3% higher versus 2018. Growth continues to be propelled by the solid performance from the Glass, Metal, Plastics, Flexibles and Paper operations.

Operating income amounted to P828 million, 4% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 6,826 gwh during the first quarter, 42% higher than 2018, brought about by higher operating hours from the Ilijan and Sual Power Plants, the full quarter contribution from Unit 2 and Unit 3 of the Malita and Limay Power Plants and the full quarter contribution of the operations of Masinloc Power Plant.

With higher off-take volumes, offset slightly by lower average realization price by 1%, consolidated revenues rose by 41% to P34,676 million from P24,661 million in 2018. This in turn brought operating income to reach P9,841 million, 23% higher than 2018.

Net income amounted to P3,579 million, more than double of 2018's level.

4. FUEL AND OIL

Petron posted consolidated revenues of P124,558 million during the first quarter, 4% lower than the P129,112 million in 2018. This was mainly due to the 5% decline in volume from the Philippine operations following the second year increase in excise tax at the beginning of this year.

Consolidated volumes, however, ended 1% lower at 26.3 million barrels compared to the same period in 2018 brought about by higher volumes contribution from Petron Malaysia and increases in liquefied petroleum gas and polypropylene volumes.

Consolidated operating income and net income settled at P4,865 million and P1,303 million, 45% and 77% decline from 2018, respectively.

Efforts to manage prevailing risk and strengthen further its presence in key areas were implemented to mitigate its impact. It, likewise, remains focused on completing major expansion projects that will further re-inforce its market leadership.

Petron will soon commission its new Lube Oil Blending Plant at the Manila Harbor which will have twice the capacity of its current Pandacan Plant, that will clearly improve its Lube business. It is also nearing completion of its polypropylene plant expansion which will provide overall better margins.

Petron also continued its service stations expansion as it opened 40 new stations in the first quarter in the Philippine market and the Malaysian operations has now over 650 stations, bringing Petron's combined total count to over 3,000.

5. INFRASTRUCTURE

The Infrastructure business reported revenues of P6,359 million, an 8% increase from 2018, as vehicular volume from all operating tollroads continue to grow. Operating income reached P3,130 million, 1% higher than 2018.

III. FINANCIAL POSITION

2020 vs. 2019

Consolidated total assets as at March 31, 2020 amounted to about P1,909,702 million, P91,968 million or 5% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents from the net proceeds of the availment of US\$1,950 million corporate notes by the Parent Company.

The decrease in inventories by P17,945 million was attributable mainly to Petron Philippines and Petron Malaysia's lower prices of crude and finished products, partly offset by the increase in volume of crude by Petron Philippines and finished products of Petron Malaysia.

The increase in prepaid expenses and other current assets by P3,942 million was primarily due to: (a) Petron's higher derivative assets, prepaid insurance from unamortized portion of renewed policies, input tax on importation of materials, unused creditable withholding taxes and prepaid taxes, and (b) San Miguel Insurance Company, Ltd.'s recognition of loss reserves recoverable from reinsurers amounting to US\$15 million related to losses due to various calamities, and (c) the Energy business' higher restricted cash balances.

The decrease in accounts payable and accrued expenses by P27,962 million was mainly due to lower liabilities for crude and petroleum products due to drop in prices and fewer outstanding shipments as at end of first quarter 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in income and other taxes payable by P2,976 million was mainly due to higher excise tax payable of Petron Philippines and sales duty tax payable of Petron Malaysia.

The increase in dividends payable by P245 million primarily represents the dividends declared by Petron on March 10, 2020 to its non-controlling shareholders payable on April 8, 2020.

The increase in total long-term debt, net of debt issue costs, by P118,867 million was mainly due to the: (a) Parent Company's availment of US\$1,950 million corporate notes and (b) SMFB's issuance of P15,000 million fixed-rate Peso-denominated bonds. The increase was offset by payment of maturing obligations of Petron, Infrastructure and Energy businesses, and foreign exchange translation adjustments on the US Dollar-denominated loans.

The decrease in total lease liabilities by P6,600 million was primarily due to the payments made to Power Sector Assets and Liabilities Management Corporation by the entities under Independent Power Producer Administration (IPPA) Agreements, offset by interest expense and foreign exchange loss by the Energy business.

The decrease in equity reserves by P2,920 million was mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

The increase in NCI by P11,691 million pertains mainly to: (a) SMC Global's issuance of US\$600 million SPCS on January 21, 2020, offset by (b) SMFB's redemption of preferred shares on March 12, 2020, (c) share of NCI on the Group's net earnings net of dividend for the period, and (d) foreign exchange translation adjustments.

2019 vs. 2018

Consolidated total assets as at March 31, 2019 amounted to about P1,722,721 million, P46,079 million higher than December 31, 2018. The increase was primarily due to the recognition of right-of-use assets with the adoption of PFRS 16, *Leases*, and the consolidation of Mariveles Power Generation Corporation (MPGC) by SMC Global.

The decrease in prepaid expenses and other current assets by P10,717 million was primarily due to the decrease in Citra Central Expressway Corp.'s restricted cash balance and decrease in Petron's input tax and goods and services tax as a result of collection of input tax claim from the government and also utilization of input tax for the period.

Property, plant and equipment decreased by P162,551 million primarily due to the reclassification of the Group's power plants under IPPA to right-of-use assets account as a result of the adoption of PFRS 16.

The balance of right-of-use assets of P179,322 million mainly represents the amount of the Group's power plants under IPPA reclassified from property, plant and equipment and other various operating lease agreements as a result of the adoption of PFRS 16.

The increase in investment property by P14,616 million is mainly due to the set-up of right-of-use assets of Petron for its rented properties being sub-leased to external parties.

The increase in other noncurrent assets by P7,596 million was mainly due to the consolidation of the advances of MPGC to suppliers and contractors for the construction of its Mariveles Power Plant. On January 25, 2019, SMC Global increased its percentage of ownership in MPGC from 49% to 73.58 % through capital infusion.

The increase in loans payable by P11,166 million was mainly due to the net availment of short-term Peso loans by the Parent Company for general corporate purposes.

The increase in accounts payable and accrued expenses by P10,653 million was mainly due to the higher liabilities for crude and petroleum products on account of higher prices.

The increase in total lease liabilities by P16,286 million pertains to the recognition of lease liabilities for right-of-use assets due to the adoption of PFRS 16, set-up of IPPA's interest expense, net of Energy business' payment for the period.

The increase in income and other taxes payable by P3,994 million was mainly due to the first quarter income taxes payable of SMB and Energy business, and higher value-added tax payable of Energy business.

The increase in dividends payable by P217 million primarily represents the dividends declared by Petron on March 12, 2019 to its non-controlling shareholders payable on April 11, 2019.

Equity

The increase in equity is due to:

<i>(In millions)</i>	March 31	
	2020	2019
Net addition to non-controlling interests and others	P15,063	P959
Net income during the period	1,093	12,825
Other comprehensive income (loss)	(3,992)	812
Cash dividends and distributions	(7,306)	(7,529)
	P4,858	P7,067

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2020	2019
Net cash flows provided by (used in) operating activities	(P1,907)	P34,800
Net cash flows used in investing activities	(21,723)	(22,557)
Net cash flows provided by (used in) financing activities	122,341	(3,279)

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

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	March 31	
	2020	2019
Additions to property, plant and equipment	(P16,330)	(P12,815)
Increase in other noncurrent assets and others	(7,796)	(12,636)
Additions to investments and advances	(286)	(329)
Proceeds from sale of property and equipment	133	267
Dividends received	535	537
Interest received	2,021	2,428
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(9)

Net cash flows provided by (used in) financing activities included the following:

<i>(In millions)</i>	March 31	
	2020	2019
Proceeds (payment) from long-term debt - net	P120,711	(P2,032)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	30,170	-
Proceeds from short-term loans - net	10	11,010
Payment of lease liabilities	(6,349)	(4,949)
Payment of cash dividends and distributions	(7,063)	(7,313)
Redemption of preferred shares of a subsidiary	(15,000)	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P852 million) and P1,125 million for the periods ended March 31, 2020 and 2019, respectively.

V. OTHER MATTERS

Notice of Withdrawal of PCC Notification for the Acquisition of Holcim Philippines, Inc.

On April 23, 2020, the Philippine Competition Commission (PCC) issued Commission Resolution No. 010-2020 which resolved to suspend all proceedings pending before it during the ECQ period in accordance with Administrative Order No. 30, issued by the President of the Philippines on April 21, 2020. On May 10, 2020, the Parent Company disclosed to the Philippine Stock Exchange, that the agreement to acquire the 85.73% shares of Holcim Philippines, Inc. (HPI), between and among First Stronghold Cement Industries, Inc. (FSCII), the Parent Company and Holderfin B.V. dated May 10, 2019, has lapsed in accordance with its terms. The completion of the acquisition required the approval of the PCC which was not able to be achieved. In view of the foregoing, the proposed acquisition by FSCII of the 85.73% of HPI shall no longer proceed. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders which was made by the Parent Company on September 23, 2019. On May 13, 2020, Top Frontier Investment Holdings, Inc., the ultimate parent company, filed a notice of withdrawal of its notification to the PCC covering the aforementioned proposed acquisition.

VI. KEY PERFORMANCE INDICATORS

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

	March 2020	December 2019
<u>Liquidity:</u>		
Current Ratio	1.70	1.46
Quick Ratio	1.22	0.96
<u>Solvency:</u>		
Debt to Equity Ratio	2.30	2.16
Asset to Equity Ratio	3.30	3.16

	March 2020	December 2019
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	4.36%	6.36%
Interest Rate Coverage Ratio	1.30	2.38
Return on Assets	1.98%	2.78%
	<u>Period Ended March 31</u>	
	2020	2019
<u>Operating Efficiency:</u>		
Volume Growth	(9%)	8%
Revenue Growth	(15%)	7%
Operating Margin	5%	12%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.

ANNEX “C”

**MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL
PERFORMANCE
(As of December 31, 2019)**



SAN MIGUEL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE

This discussion summarizes the significant factors affecting the consolidated financial performance, financial position and cash flows of San Miguel Corporation ("SMC" or the "Parent Company") and its subsidiaries (collectively referred to as the "Group") for the three-year period ended December 31, 2019. The following discussion should be read in conjunction with the attached audited consolidated statements of financial position of the Group as at December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2019. All necessary adjustments to present fairly the Group's consolidated financial position as at December 31, 2019 and the financial performance and cash flows for the year ended December 31, 2019 and for all the other periods presented, have been made.

I. BASIS OF PREPARATION

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

Basis of Measurement

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

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

Functional and Presentation Currency

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

Significant Accounting Policies

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

Adoption of New and Amended Standards and Interpretation

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

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

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

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

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

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

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

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

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

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

- **Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*.** The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the chosen tax treatment. If it is not probable that the tax authority will accept the chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

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

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

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

- **Prepayment Features with Negative Compensation (Amendment to PFRS 9).** The amendment covers the following areas:
 - ***Prepayment Features with Negative Compensation.*** The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or FVOCI irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.
 - ***Modification of Financial Liabilities.*** The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset – i.e. the amortized cost of the modified financial liability is recalculated by discounting

the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in the consolidated statements of income.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
- Annual Improvements to PFRS Cycles 2015 - 2017 contain changes to four standards:
 - Previously Held Interest in a Joint Operation (Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*). The amendments clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. If an entity maintains (or obtains) joint control, the previously held interest is not remeasured. If an entity obtains control, the transaction is a business combination achieved in stages and the acquiring entity remeasures the previously held interest at fair value.
 - Income Tax Consequences of Payments on Financial Instrument Classified as Equity (Amendments to PAS 12). The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits - i.e., in profit or loss, other comprehensive income or equity.
 - Borrowing Costs Eligible for Capitalization (Amendments to PAS 23, *Borrowing Costs*). The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale, or any non-qualifying assets, are included in that general pool.
- IFRIC Agenda Decision on Over Time Transfer for Constructed Goods (PAS 23) for the Real Estate Industry. In 2019, the IFRIC published an agenda decision on the eligibility of capitalization of borrowing costs in relation to the construction of residential multi-unit real estate development for entities which recognize revenue over time. The IFRIC concluded that inventory for unsold units under construction, which is ready for its intended sale in its current condition, is not a qualifying asset based on the definition provided by PAS 23. Accordingly, any incurred borrowing costs related to the construction of real estate inventories are not capitalized as part of real estate inventories and are to be recognized directly as expense in the consolidated statements of income.

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

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

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

II. FINANCIAL PERFORMANCE

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

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

2019 vs. 2018

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

Cost of sales amounted to P818,815 million, slightly lower than 2018 at P825,748 million. The decrease primarily was the result of lower average crude prices and sales volume of Petron. This was reduced by the increase in: (a) full year operations of Masinloc Power Plant Units 1 and 2, Malita Power Plant Unit 2, and Limay Power Plant Unit 3, alongside Limay Power Plant Unit 4 which started operations in July 2019, (b) higher power purchase costs of Sual, Ilijan and San Roque Power Plants, (c) higher energy fees of Sual and Ilijan Power Plants, and (d) volume growth of SMFB and higher broiler cost, processing cost and major raw materials of the Food division.

Selling and administrative expenses increased by 5% to P85,972 million compared to last year, mainly due to (a) higher personnel expenses, logistics costs, contracted services costs and marketing expenses of SMFB, and (b) higher operating expenses of Masinloc entities' full year operations. The increase was partly offset by lower employee costs, provision for bad debts and advertising expenses of Petron.

The Group's consolidated operating income declined by 1% at P115,715 million, from last year, weighed down by Petron and SMFB - Food division. This was partly offset by SMFB's Beer and Spirits divisions and the Energy business which delivered strong results during the period.

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

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

The increase in equity in net earnings mainly represents the share of San Miguel Properties, Inc. (SMPI) on Bank of Commerce (BOC) higher earnings and the share of San Miguel Holdings Corp. (SMHC) on the earnings of Manila North Harbour Port Inc. (MNHPI) for the period May to December 2019, net of the share in higher net losses of the Group's Joint Ventures.

The loss on sale of investments and property and equipment in 2019 pertains mainly to the disposal and retirement by San Miguel Yamamura Packaging Corporation (SMYPC) of its Cebu Beverage Packaging Plant.

Other income - net in 2019 was primarily due to the appreciation of the Philippine Peso by P1.945 versus other charges - net in 2018 where the Philippine Peso depreciated by P2.65 in 2018. This resulted to a foreign exchange gain of P5,422 million in 2019 compared to a foreign exchange loss of P9,714 million in 2018.

The higher income tax expense was primarily due to the: (a) higher provision for deferred income tax expense recognized by the Energy business on the temporary difference of monthly fixed payments to Power Sector Assets and Liabilities Management Corporation (PSALM) over the finance lease-related expenses and the temporary differences on foreign exchange translation and capitalized borrowing costs, and (b) higher taxable income of San Miguel Brewery (SMB). This was partially offset by lower provision for income tax recognized by Petron, SMFB - Food division and San Miguel Energy Corporation (SMEC) due to the decline in taxable income.

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

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

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

1. FOOD AND BEVERAGE

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

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

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

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

Domestic Operations

Domestic operations sold 275.3 million cases, up 7% from the previous year. This was mainly the result of engaging brand and trade activations coupled with sustained economic expansion, low inflation, election-related spending, and better employment conditions. Red Horse and San Miguel Pale Pilsen maintained their position as the top selling beer brands. Both benefitted from nationwide activations and consumer promo events such as “Pasiklaban”, “4Kicks”, “Rocker Chicks” and “Astig” for Red Horse and “Logiclub” for San Miguel Pale Pilsen, alongside other volume-generating programs.

SMB completed its new beer production facility in Tagoloan, Misamis Oriental in the fourth quarter of 2019 and, to date, is awaiting the necessary government permits to start commercial operations.

International Operations

SMB’s international operations delivered revenue and operating income growth, despite a slight drop in volumes. This was on the back of strong results from Thailand operations and the Exports business, along with significant improvements in Vietnam, South China and Hong Kong.

Distribution and marketing enhancements and penetration programs were put in place to accelerate volume growth of San Miguel brands – San Miguel Pale Pilsen, Red Horse, San Mig Light and Cerveza Negra – and local brands. These included geographical expansion and the launch of new products in all countries with operations.

b. Spirits Division

Ginebra San Miguel Inc. (GSMI) posted a full-year net income of P1,672 million, 59% higher than the previous year – the highest income recorded in the last 15 years. Volumes grew 14% from 2018 at 35.9 million cases. Much of this growth is attributed to the success of thematic campaigns, “*Pilipino Ako, Ginebra Ako*” for Ginebra San Miguel and “*I Choose Mojito*” for GSM Blue. Wider sales distribution, trade promotions and various on-ground activities for consumers also helped boost volumes. Vino Kulafu, GSMI’s Chinese wine brand, continued to post strong growth in Visayas and Mindanao regions while Primera Light Brandy also delivered healthy growth.

Before the end of 2019, GSMI launched a new campaign, “One Ginebra Nation”, espousing unity among Filipinos which is expected to boost volume growth further for GSMI.

Total revenues reached P29,063 million, up 17%. Operating income hit P2,878 million, 57% higher than the previous year, as a result of better margins deriving from operational improvements across the supply chain.

c. Food Division

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

- The Protein segment, composed of Poultry and Fresh Meats, registered a 7% growth in revenues as volumes from chicken stations, *lechon manok* outlets, and major food service chains, increased. The improvement in poultry prices following the re-imposition of special safeguard duties on imported frozen

chicken, also helped boost sales. Revenues from fresh meats however declined, due to restrictions imposed by several Local Government Units on pork products, in a bid to curb the spread of African Swine Flu (ASF).

- Animal Nutrition & Health segment revenues declined by 2%, following lower commercial volumes due to its portfolio rationalization. Sales of broiler and layer feeds were also lower as commercial raisers held back output, following the glut in chicken prices. This was cushioned by strong hog feeds sales prior to the ASF outbreak.
- Prepared and Packaged Food segment revenues grew 8% on the back of the strong performance of its core products and favorable selling prices of value-added meats, butter, margarine, dairy spreads, biscuits and coffee. The segment also benefitted from an improved product mix, specifically, a shift to higher-margin products and the conversion of some of pork-based products to chicken-based formulations, as in the case of the newly launched Purefoods Fiesta Ham Chicken.
- Flour revenues grew 11%, driven by better selling prices and healthy volume growth resulting from additional capacity from our new flour mill.

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

The Food division has built four new feed mills. Two facilities are in Luzon, in Bataan and San Ildefonso, and both started commercial operations in 2019. Two other feed mills in Davao and Misamis Oriental are both undergoing commissioning. The Food division has expanded its poultry breeder farm in Bataan and is constructing new poultry processing plant in Quezon and Davao. An additional flour milling facility is being commissioned in Mabini, Batangas and is expected to be operational by early 2020.

2. PACKAGING

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

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

3. ENERGY

SMC Global registered consolidated revenues of P135,060 million, 12% higher than the P120,103 million it reported in 2018. This was on the back of an 18% increase in off-take volumes at 28,112 Gwh brought about by the full year operation of Masinloc Power Plants Unit 1 and 2, Unit 2 of Malita Power Plant and Unit 3 of the Limay Power Plant. Unit 4 of the Limay Power Plant also provided additional capacity starting July 2019. In addition, the Ilijan Power Plant posted higher revenues from its bilateral and spot sales in 2019.

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

4. FUEL AND OIL

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

As a result, Petron's consolidated revenues amounted to P514,362 million, down 8% versus 2018, mainly on account of lower average selling price of fuel, and a slight decline in volumes, which ended at 107 million barrels. Philippine operations volume declined by 5% following the unplanned total plant shutdown which began in April 2019. Petron Malaysia's domestic volumes meanwhile grew by 3%, helping offset the decline in Philippine volumes.

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

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

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

5. INFRASTRUCTURE

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

Construction of our major infrastructure projects remain on going. This however was temporarily suspended starting on March 17, 2020 when the Enhanced Community Quarantine (ECQ) was implemented in Luzon by the Philippine government to control the spread of the Coronavirus Disease 2019 (COVID-19). Construction activities gradually resumed after the restrictions in construction activities were partially allowed in some area until it was totally lifted on May 15, 2020.

The 89.21-kilometer Tarlac-Pangasinan-La Union Expressway (TPLEX) has been operational from Tarlac to Pozzorubio while the last phase from Pozzorubio to Rosario, La Union, is almost complete. This phase was temporarily opened to the public in December 2019 which was closed after the holiday season to give way for its completion.

Construction of the 22-kilometer Mass Rail Transit (MRT 7) Project, is likewise progressing well. Work on the section from Quezon Memorial Circle to Quirino Highway traversing Commonwealth Ave. and Regalado Ave. in Quezon City was accelerated to reach the goal of partial operation by 2021.

The Bulacan Bulk Water Supply Project now supplies potable water to 12 out of 24 Bulacan municipalities, including Balagtas, Bocaue, Bulakan, Calumpit, Guiguinto, Malolos City, Marilao, Meycauyan, Obando, Plaridel, San Jose del Monte and Santa Maria.

The Skyway Stage 3 that will link South Luzon Expressway (SLEX) to North Luzon Expressway is in the advanced stages of completion, despite suffering a setback on February 1, 2020 from a fire in Pandacan, Manila. Approximately 300 meters of Section 2B, which was already substantially complete, was affected. Prior to work suspension due to ECQ, SMC Infrastructure had been working 24/7 to reconstruct this section and targeting to complete the Skyway 3 Project by July this year.

SLEX – Toll Road 4 (SLEX-TR4), the 56.862-kilometer extension of the SLEX from Sto. Tomas, Batangas to Lucena City in Quezon province has started construction. Works from Alaminos, Laguna and Tiaong, Quezon is currently ongoing.

Construction of the new passenger terminal in Boracay airport has been slowed down to give way for groundwater works and well development. Both projects are partially completed.

Meanwhile, the Concession Agreement for the New Manila International Airport was signed last September 18, 2019. A game-changing infrastructure project, its detail technical design and requirements for its financial close is currently on-going.

2018 vs. 2017

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

Cost of sales increased by 28% to P825,748 million mainly due to the: (a) increase in crude prices and effect of excise tax of Petron, (b) higher sales volume of Beer and Food divisions under SMFB, (c) increase in excise tax by 4% per case of the domestic operations of SMB, and (d) operations of the newly acquired Masinloc Power Partners Co. Ltd. (MPPCL) and the new Greenfield Power Plants in Bataan and Davao.

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

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

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

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

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

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

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

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

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

1. FOOD AND BEVERAGE

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

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

a) Beer and NAB Division

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

Domestic Operations

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

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

International Operations

SMB's International Operations benefitted from volume growth in its South China and Indonesia operations as well as Exports, and better sales mix. As such, despite continuing challenges in the business environment in North China, Hong Kong, Vietnam, and Thailand, SMB International registered double-digit growth in operating income.

b) Spirits Division

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

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

c) Food Division

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

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

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

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

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

2. PACKAGING

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

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

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

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

3. ENERGY

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

capacity. With the acquisition of the Masinloc Power Plant in March 2018 which added a combined capacity of 684 MW, total installed capacity reached 4,197 MW in 2018.

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

4. FUEL AND OIL

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

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

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

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

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

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

5. INFRASTRUCTURE

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

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

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

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

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

III. FINANCIAL POSITION

A. The following are the major developments in 2019:

INVESTMENT IN SUBSIDIARIES

Deconsolidation of MNHPI

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

As a result, MNHPI ceased to be a subsidiary of SMHC. The Group derecognized the assets (including goodwill) and liabilities of MNHPI, and the carrying amount of non-controlling interest as at April 26, 2019, and recognized the investment at fair market value amounting to P2,600 million. The Group recognized a gain amounting to P727 million, included as part of "Other income (charges) - net" account, in the consolidated statements of income.

In December 2019, SMHC acquired for a total of P1,061 million additional 1,950,000 and 50,000 common shares of stock of MNHPI from IZ Investment Holdings, Inc. and Petron, respectively. With the acquisition of the additional shares, SMHC increased its equity interest in MNHPI from 43.33% to 50%.

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

AVAILMENT OF LONG-TERM DEBT

PESO TERM LOANS

- **INFRA GROUP**

Atlantic Aurum Investments Philippines Corporation (AAIPC)

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

Private Infra Dev Corporation (PIDC)

On December 19, 2019, PIDC drew P12,000 million from its P42,000 million Second Amendment to the Omnibus Loan and Security Agreement (OLSA) dated December 16, 2019 with various local banks. Proceeds of the loan were used for consolidation of project loans, leveraging the project, repayment of certain shareholder advance and partial financing of operation and maintenance of the TPLEX project. The loan is subject to fixed interest rate and payable in 39 quarterly installments up to September 19, 2029.

- **SAN MIGUEL FOOD AND BEVERAGE**

SMB

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

San Miguel Foods Inc. (SMFI)

On December 12, 2019, SMFI drew P10,000 million from its P18,000 million ten-year term loan facility. The loan is subject to floating interest rate with a one-time option to convert to fixed interest rate within two years. The proceeds were used to refinance existing short-term loans and fund its capital expenditure requirement for the upgrade or expansion of its production facilities and/or to finance other general corporate requirements.

San Miguel Mills Inc. (SMMI)

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

- **SMC**

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

FOREIGN CURRENCY DENOMINATED LOANS

- **Petron**

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

- **MPPCL**

In 2019, MPPCL availed a total of US\$75 million loan from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335MW coal-fired power plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche and a floating interest tranche, with maturities up to December 2030.

- **SMC**

On December 27, 2019, the Parent Company drew US\$50 million from its term loan facility amounting to US\$2,000 million. The loan is subject to floating interest rate with

maturity date on September 27, 2024. The proceeds of the loans will be used for general corporate purposes.

- **Others**

San Miguel Yamamura Australasia Pty. Ltd. (SMYA)

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

ISSUANCE AND REDEMPTION OF BONDS

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

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

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

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

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

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

On October 4, 2019, the Parent Company issued fixed-rate peso-denominated Series H Bonds. The five-year Series H Bonds due in 2024 have fixed interest rate per annum of 5.5500%. Interest is payable every 4th of January, April, July and October of each year.

The net proceeds were used to fund the bridge financing loan for the redemption of the outstanding Series “2” Preferred Shares – Subseries B and additional investment in SMHC for New Manila International Project.

Redemption of Fixed-Rate Peso-Denominated Bonds by SMB

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

PAYMENT OF MATURING OBLIGATIONS

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

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

ISSUANCE AND REDEMPTION OF EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. The following are the major developments in 2018:

INVESTMENT IN SUBSIDIARIES

Food and Beverage

▪ Consolidation of Food and Beverage Businesses

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

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

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

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

On June 29, 2018, pursuant to the Deed of Exchange of Shares, the share swap was completed and resulted to an increase of SMC's ownership in SMFB common shares from 85.37% to 95.87% and the consolidation of the food and beverage business operations of the San Miguel Group under SMFB.

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

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

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

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

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

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

Energy

▪ **Acquisition of the Masinloc Group**

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

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

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

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

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

The transaction was financed through the following:

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

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

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

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

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

LONG-TERM DEBT

▪ REFINANCING OF LOANS

a) Availment of Loans

SMC

Availment of US\$300 Million Term Loan

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

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

Availment of US\$200 Million Term Loan

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

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

GSMI

Availment of P1,000 Million Term Loan

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

b) Redemption of US\$750 Million USCS

Petron

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

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

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

▪ **REDENOMINATION OF FOREIGN CURRENCY LOANS**

In 2018, the Group redenominated certain foreign currency loans to reduce exposure to changes in the peso-dollar exchange rates.

SMC

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

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

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

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

The proceeds from the issuance were used for the payment of the US dollar-denominated short-term loan and long-term debt.

Issuance of P10,000 Million Fixed Rate Peso-denominated Notes

On May 25, 2018, SMC issued and listed with the PDEX peso-denominated Fixed-Rate Notes (the “Fixed-Rate Notes”) amounting to P10,000 million. The Fixed-Rate Notes have interest rate equivalent to 5.25% per annum due in 2020.

Proceeds from the Fixed-Rate Notes were used to partially refinance various loans and partially invest in existing businesses of the subsidiaries of the Parent Company.

SMC Global

On August 17, 2018, SMC Global issued and listed with the PDEX the second tranche of the P35,000 million shelf registered fixed rate bonds amounting to P15,000 million. The Bonds have interest rate equivalent to 6.75% per annum due in 2023.

Proceeds from the issuance were used to refinance the outstanding shareholder advance and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

▪ **AVAILMENT OF LOANS TO FINANCE CAPEX/PROJECT/INVESTMENT**

SMC Consolidated Power Corporation (SCPC)

On January 31, 2018, SCPC drew P2,000 million from the P44,000 million OLSA with various local banks dated June 22, 2017 to finance the ongoing construction of the 2x150 MW Limay Coal-fired Power Plant Phase II, comprising of Unit 3 and Unit 4.

Luzon Clean Water Development Corporation (LCWDC)

On various dates in 2018, LCWDC drew a total of P4,200 million from the P5,400 million OLSA with various local banks dated September 16, 2016. The loans are subject to a floating interest rate.

Proceeds of the loan were used for the Bulacan Bulk Water Supply Project.

Citra Central Expressway Corp. (CCEC)

On various dates in 2018, CCEC drew a total of P18,100 million from the P31,000 million OLSA with various local banks dated December 15, 2014 for the project cost of the Skyway Stage 3.

SMC

On June 26, 2018, SMC availed of a US\$300 million five-year Facility Agreement to fund general corporate requirements and/or additional investments. The loan is subject to a floating interest rate.

MPPCL

On July 6, 2018 and October 8, 2018, MPPCL drew a total of US\$120 million from the Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335MW (gross; Unit 3) coal-fired plant within the existing facilities of MPPCL. The loan is divided into a fixed interest tranche and a floating interest tranche, with maturities up to December 2030.

San Miguel Consolidated Power Corporation (SMCPC)

On August 17, 2018, SMCPC drew P20,322 million from the P21,300 million OLSA with various local banks dated August 9, 2018, to fund the design, construction and operations of the Malita Power Plant.

San Miguel Yamamura Asia Corporation (SMYAC)

On various dates in 2018, SMYAC drew a total of P3,300 million from its P4,000 million term loan facility to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project and for general funding requirements. The loan is subject to a floating interest rate with maturities up to July 2023.

▪ **PAYMENT OF MATURING OBLIGATIONS**

Infrastructure Group

In 2018, the SMC Infrastructure Group paid a total of P10,512 million of its maturing long-term debt.

Energy Group

In 2018, the Energy Group paid a total of P3,226 million of its maturing long-term debt.

Other Subsidiaries

In 2018, Petron, SMYPC, SMYAC, East Pacific Star Bottlers Phils Inc., and Can Asia, Inc. paid their maturing long-term debt amounting to P7,514 million.

C. MATERIAL CHANGES PER LINE OF ACCOUNT

2019 vs. 2018

Consolidated total assets as at December 31, 2019 amounted to about P1,817,734 million, P141,092 million higher than December 31, 2018. The increase was primarily due to the increase in cash and cash equivalents and the recognition of right-of-use assets with the adoption of PFRS 16 effective January 1, 2019.

The increase in cash and cash equivalents in 2019 by P43,307 million is mainly due to the issuance of SPCS by SMC Global, preferred shares of Petron and loan availment of the Parent Company.

The increase in trade and other receivables by P6,595 million is mainly due to Petron's higher fuel prices and excise tax of fuel products, higher revenue of the Beer and Food divisions under SMFB, SCPC and MPPCL, partly offset by the decrease in Petron Malaysia's government subsidy receivable.

The increase in inventories by P8,517 million is mainly due to Petron's higher volume of finished product and price of crude and the incremental excise tax-imposed beginning 2019.

The decrease in prepaid expenses and other current assets by P5,458 million was primarily due to the: (a) decrease in Petron's input tax, goods and services tax and other prepaid taxes as a result of collection of input tax claim from the government and also utilization of input tax for the period, and (b) decrease in CCEC's restricted cash balance. The decrease was partly offset by Tax Credit Certificate (TCC) received by SMB for the San Mig Light tax cases, and increase in Infrastructure Group's input taxes.

The increase in investments and advances was attributable to the reclassification of SMHC's investment in MNHPI from subsidiary to joint venture, net of the reclassification by SMC Global of its investment in Mariveles Power Generation Corporation (MPGC) to investment in subsidiary.

The decrease in property, plant and equipment by P130,758 million and corresponding increase in right-of-use assets by P173,604 million, primarily represents the reclassification to right-of-use assets of the power plants as a result of the adoption of PFRS 16.

The increase in investment property was mainly due to the set up of ROU assets of Petron for its rented properties being sub-leased to external parties.

The decrease in deferred tax assets was mainly due to derecognized deferred tax on NOLCO of the Parent Company which expired in 2019.

The increase in other noncurrent assets by P22,764 million was mainly due to the: (a) advances to suppliers and contractors for the construction of the Mariveles Power Plant and battery energy storage system project, (b) purchase of new containers by SMB, and (c) capitalized costs on the construction of MRT 7 and Section 3A-2 (Binalonan to Pozzorubio) of the TPLEX project.

The decrease in loans payable by P14,532 million was mainly due to net payment of Petron and deconsolidation of MNHPI.

The increase in accounts payable and accrued expenses by P26,273 million was mainly due to Petron's higher liabilities for crude and petroleum products on account of higher prices and more outstanding shipments as of end-2019 versus 2018, and higher outstanding payable to contractors of Infrastructure Group and MPGC.

The increase in lease liabilities - current portion pertains to the recognition of current lease liabilities for ROU assets as a result of the adoption of PFRS 16 and the reclassification from noncurrent to current of the lease liabilities under Independent Power Producer Administration agreements due up to December 31, 2020 by the Energy business.

The increase in income and other taxes payable was mainly due to SMB's higher taxable income.

The increase in long-term debt (current and noncurrent) was due to the: (a) issuance of P30,000 million fixed-rate Peso-denominated bonds by SMC Global, (b) availment of the US\$800 million long-term loan facility by Petron, and (c) issuance of P16,000 million long-term corporate notes, P10,000 million fixed-rate Peso-denominated bonds and US\$50 million term loan by the Parent Company, and (d) net loan availments of Food Group, Packaging Group, Masinloc and Infrastructure Group. The increase was partially offset by the: (a) redemption of Series C and E bonds of SMB, (b) settlement of maturing obligations by Petron, the Energy business and SMC, and (c) foreign currency adjustment on the US Dollar-denominated loans.

The increase in deferred tax liability was mainly attributable to the temporary differences arising from interest and forex on the dollar-denominated finance lease liabilities of South Premiere Power Corp. (SPPC), SMEC and Strategic Power Devt. Corp. (SPDC), net of the decrease in deferred tax liability of Petron due to recognition of NOLCO for 2019.

The decrease in other noncurrent liabilities was mainly due to the deconsolidation of MNHPI.

The decrease in equity reserves by P7,123 million pertains to (1) Equity reserve from the redemption of USCS by SMC Global (2) the currency translation adjustments for the period resulting from the appreciation of Peso against the US Dollar and (3) the equity reserve for retirement plan.

The decrease in the group's appropriated retained earnings by P16,131 million is attributable to the reversals made by Energy Group for the portion of paid fixed monthly payments to PSALM by SPPC, SMEC and SPDC.

The increase in unappropriated retained earnings by P24,747 million was primarily due to the net reversal of appropriations and net income for the period net of cash dividends.

The increase in Treasury shares was due to the redemption by the Parent Company of its 90,428,200 Series "2" Preferred Shares - Subseries B on September 23, 2019.

The increase in non-controlling interests by P67,737 million pertains to the (1) issuance of SPCS by SMC Global, (2) issuance of Preferred Shares by Petron and (3) share of non-controlling interests on the group's net earnings net of dividend for the period, the increase was offset by: (1) redemption of USCS by SMC Global's; (2) redemption of Preferred Shares by Petron; and (3) the effect of deconsolidation of MNHPI.

Equity

The increase in equity in 2019 is due to:

<i>(In millions)</i>	2019
Net addition to non-controlling interests and others	P59,893
Net income during the period	48,574
Cash dividends and distributions	(30,724)
Redemption of series "2-B" preferred shares	(6,782)
Other comprehensive loss	(6,091)
Adjustments due to PFRS 16 and others	(2,422)
	<u>P62,448</u>

2018 vs. 2017

The Group's consolidated total assets as at December 31, 2018 amounted to P1,676,642 million, P293,266 million higher than 2017. The increase was primarily due to the increase in cash and cash equivalents, inventories, the consolidation of Masinloc Power assets, and the recognition of goodwill on the consolidation.

The increase in cash and cash equivalents by P37,077 million was mainly due to proceeds from the follow-on offering of SMFB common shares in November 2018.

The increase in trade and other receivables by P13,853 million was mainly attributable to the higher revenue of SMC Global, Petron and Food segment, consolidation of Masinloc Group and increase in Petron Malaysia's government subsidy receivable.

Inventories increased primarily due to the: (a) higher prices and volume of crude oil and finished products including excise taxes of Petron, (b) consolidation of the materials and supplies of MPPCL, and (c) increase in Food segment's inventory to meet forecasted peak season sales and to maintain safety inventory levels.

Biological assets increased by P972 million mainly due to Poultry's expansion of farm capacities to support increasing supply requirement and higher growing cost due to increase in importation cost of parent stocks.

The increase in prepaid expenses and other current assets was primarily due to the net increase in restricted cash balance of CCEC and SMCPC, consolidation of Masinloc Group's prepaid expenses and higher prepaid taxes, mainly from input tax, of Petron, SMC Global and SMHC.

Investments and advances increased by P14,982 million mainly due to the advances for investment made by San Miguel Holdings Limited to Bryce Canyon Investments Limited and acquisition by SMC Equivest Corporation of 4.69% equity interest in BOC.

The increase of P70,786 million in property, plant and equipment was primarily due to the consolidation of the power plant and related facilities of the Masinloc Group.

The increase in investment property was due to the reclassification of various property, plant and equipment of Petron to investment property to reflect the usage of properties being leased out to its dealers, and acquisitions during 2018.

The increase in goodwill mainly represents the goodwill recognized as a result of the consolidation of the Masinloc Group.

Other intangible assets increased mainly due to the costs of various infrastructure projects of the Infrastructure Group net of amortization during the period.

Deferred tax assets increased by P837 million mainly due to the effect of recognition of higher unrealized foreign exchange loss on the revaluation of foreign currency denominated long-term debt and loans payable as a result of the depreciation of the Philippine Peso against the US Dollar in December 2018 compared to December 2017.

The increase in other noncurrent assets by P15,471 million was mainly due to the: (a) reclassification of advances to contractors of Universal LRT Corporation (BVI) Limited from current to noncurrent due to delay in MRT 7 Project completion, (b) capitalized expenditures on the construction of MRT 7 Project, (c) purchase of new containers by SMB, and (d) the consolidation of the Masinloc Group's other noncurrent assets.

The increase in loans payable by P34,161 million was mainly due to net availment of loans for working capital and general corporate purposes by Petron, the Food division under SMFB and SMC.

Accounts payable and accrued expenses increased by P12,771 million mainly due to the consolidation of the balances of Masinloc entities.

The increase in the current portion of finance lease liabilities mainly represents the reclassification from noncurrent portion to current portion of finance lease liabilities due in 2019 of Energy Group.

The P3,248 million increase in income and other taxes payable was mainly due to the higher excise tax of Petron and the contributed income tax and other taxes payables of the Masinloc entities.

Dividends payable decreased primarily due to dividend payments made by Citra Metro Manila Tollways Corp and SMYAC.

The increase in current maturities of long-term debt was mainly due to the reclassification to current liability of the amounts due in 2019.

The higher amount of long-term debt resulted from the: (a) loan availments made by SMC Global and SMC, and the issuance of fixed rate bonds by SMC Global to finance the acquisition of Masinloc Power, (b) consolidation of the long-term debt of MPPCL, (c) loan availments by SMC Parent for investment and general corporate purposes, and (d) loan availments by the Energy Group and the Infrastructure Group to finance capital expenditures.

The increase in deferred tax liability is mainly attributable to the temporary differences arising from interest expense, depreciation and foreign exchange.

The decrease in finance lease liabilities by P15,641 million was mainly due to payments, net of interest and the effect of foreign exchange rate changes.

Other noncurrent liabilities decreased primarily due to Petron's settlement of retirement liability and contribution to the retirement fund.

Equity reserves increased by P26,312 million mainly due to the effect of SMFB's share swap and the gain from the follow on offering of SMFB common shares, net of the redemption of USCS of Petron.

The increase in appropriated retained earnings by P5,930 million was mainly due to appropriations by SMFB net of the reversals of SMC Global, SMITS, Infrastructure Group, SMC Shipping and Lighterage Corporation and SMYAC.

Equity

The increase in equity in 2018 is due to:

<i>(In millions)</i>	2018
Income during the period	P48,648
Net addition to non-controlling interests and others	20,430
Other comprehensive income	926
Issuance of capital stock	196
Adjustments due to PFRS 9 and 15	6
Cash dividends and distributions	(29,321)
	P40,885

IV. CASH FLOW

SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Net cash flows provided by operating activities	P92,195	P59,772	P79,736
Net cash flows used in investing activities	(112,040)	(196,313)	(54,132)
Net cash flows provided by (used) in financing activities	66,756	174,015	(22,386)

Net cash from operations basically consists of income for the period and changes in noncash current assets, certain current liabilities and others.

Net cash flows used in investing activities are as follows:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Additions to property, plant and equipment	(P66,805)	(P47,323)	(P38,693)
Increase in other noncurrent assets and others	(54,338)	(40,494)	(30,531)
Additions to investments and advances and investment in debt instruments	(2,169)	(20,021)	(2,908)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(1,408)	(98,057)	(2,568)
Cash and cash equivalents of a deconsolidated Subsidiary	(626)	-	-
Interest received	10,549	6,537	4,263
Dividend received	1,886	1,906	1,355
Proceeds from sale of investments and property and equipment	871	1,139	1,930
Proceeds from disposal of discontinued operations, net of cash and cash equivalents disposed of	-	-	13,020

Net cash flows provided by (used in) financing activities are as follows:

	December 31		
	2019	2018	2017
		<i>(In Millions)</i>	
Net proceeds from issuance of senior perpetual capital securities and preferred shares of subsidiaries	P85,733	P24,881	P -
Net proceeds from long-term borrowings	72,778	176,814	67,740
Cash dividends and distributions paid	(30,652)	(29,706)	(27,023)
Redemption of undated subordinated capital securities and preferred shares of subsidiaries	(22,305)	(39,769)	-
Payments of lease liabilities	(20,673)	(25,698)	(24,924)
Net proceeds from (payments of) short-term borrowings	(10,532)	32,305	(40,058)
Redemption of series “2-B” preferred shares	(6,782)	-	-
Increase (decrease) in non-controlling interests and others	(811)	(91)	1,760
Proceeds from follow-on offering of common shares of a subsidiary	-	35,083	-
Proceeds from issuance of capital stock	-	196	119

The effect of exchange rate changes on cash and cash equivalents amounted to (P3,604) million, (P397) million and (P298) million on December 31, 2019, 2018 and 2017, respectively.

V. ADDITIONAL INFORMATION ON UNAPPROPRIATED RETAINED EARNINGS

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 million in 2019, 2018 and 2017, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group include the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

KEY PERFORMANCE INDICATORS

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

	December 31	
	2019	2018
Liquidity:		
Current Ratio	1.46	1.36
Quick Ratio	0.96	0.86
Solvency:		
Debt to Equity Ratio	2.16	2.28
Asset to Equity Ratio	3.16	3.28
Profitability:		
Return on Average Equity Attributable to Equity		
Holders of the Parent Company	6.36%	7.23%
Interest Rate Coverage Ratio	2.38	2.61
Return on Assets	2.67%	2.90%
Operating Efficiency:		
Volume Growth	3%	8%
Revenue Growth	0%	24%
Operating Margin	11%	11%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$

Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

VI. OTHER MATTERS

Consent Solicitation

On July 11, 2019, the BOD of the Parent Company approved the conduct of a consent solicitation process for the holders of the US\$800 million 4.875% Notes due in 2023, of which US\$516 million are currently outstanding, and to the holders of record as at November 14, 2019 of the following debt securities namely: (i) 4.8243% Series A Bonds due in 2022, 5.2840% Series B Bonds due in 2024, 5.7613% Series C Bonds due in 2027; (ii) 5.1923% Series D Bonds due in 2022; (iii) 6.2500% Series E Bonds due in 2023, 6.625% Series F Bonds due in 2025, 7.1250% Series G Bonds due in 2028; and (iv) 5.2500% Fixed Rate Notes due in 2020, to the amendments to certain terms and conditions in the respective trust agreements.

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

The Parent Company obtained the consents in connection with the consent solicitation for its Corporate Notes and Fixed Rate Corporate Bonds held from November 5 to December 18, 2019.

The supplemental trust agreements amending the trust agreements covering the Series A, B, C bonds, Series D bonds, Series E, F, G bonds and the two-year Fixed-rate Corporate Notes were executed by the Parent Company and the respective trustees of the said bonds on December 26, 2019.

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

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

Deferment of the Issuance and Listing of the P60,000 Million Commercial Papers Program

On February 6, 2020, the Parent Company filed with the SEC, a registration statement, together with the prospectus, for the planned P60,000 million Commercial Papers Program, with an initial offer of P15,000 million Series A Commercial Papers with an over subscription option of up to P5,000 million.

The Parent Company on March 20, 2020, submitted a Letter-Advise to the Market and Securities Regulations Department of the SEC to inform the Commission that, upon careful consideration, the Parent Company will defer the processing of the Registration Statement and the issuance and listing of the P60,000 million commercial papers until such time that conditions stabilize, taking into consideration the COVID-19 outbreak and following the adoption by the Philippine Government of ECQ over the entire island of Luzon effective March 17, 2020 until April 12, 2020.

Acquisition of Holcim Philippines, Inc.

On May 10, 2019, the Parent Company, through First Stronghold Cement Industries, Inc., (FSCII) a subsidiary of San Miguel Equity Investments, Inc., signed a definitive agreement to acquire a controlling interest in Holcim Philippines, Inc. (HPI) from entities controlled by Lafarge Holcim which was subject to the PCC review and approval.

On April 23, 2020, the PCC issued Commission Resolution No. 010-2020 which resolved to suspend all proceedings pending before it during the ECQ period in accordance with Administrative Order No. 30, issued by the President of the Philippines on April 21, 2020. On May 10, 2020, the Parent Company disclosed to the Philippine Stock Exchange, that the agreement to acquire the 85.73% shares of HPI, between and among FSCII, the Parent Company and Holderfin B.V. dated May 10, 2019, has lapsed in accordance with its terms. The completion of the acquisition required the approval of the PCC which was not able to be achieved. In view of the foregoing, the proposed acquisition by FSCII of the 85.73% of HPI shall no longer proceed. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders which was made by the Parent Company on September 23, 2019.

■ Contingencies

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

a. SEC Case

On September 10, 2018, SMC, SMFB and GSMI received from the SEC Special Hearing Panel, a Summons dated September 3, 2018 furnishing SMC, SMFB and GSMI a copy of the Amended Petition filed by Josefina Multi-Ventures Corporation (the "Petitioner") against SMC, SMFB and GSMI docketed as SEC Case No. 05-18-468 (the "Petition"). The Petition seeks (i) to declare null and void: (a) the share swap transaction between SMFB and SMC involving the transfer of SMC's common shares in SMB and GSMI and in consideration therefor, the issuance of new SMFB common

shares from the increase in SMFB's capital stock; and (b) SMFB's Certificate of Approval of Increase of Capital Stock and Certificate of Filing of Amended Articles of Incorporation (amending Article VII thereof) issued by the SEC on June 29, 2018; or (ii) in the alternative, for SMFB to be directed to conduct a mandatory tender offer under Section 19 of the Securities Regulation Code for the benefit of the remaining shareholders of GSMI.

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

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

b. Treasury Shares of the Parent Company

A portion of the total treasury shares of the Parent Company came from 25,450,000 common shares with an acquisition cost of P481 million, [net of the cost of the 1,000,000 shares paid to the Presidential Commission on Good Government (PCGG) as arbitral fee pursuant to the Compromise Agreement, as herein defined] which were reverted to treasury in 1991 upon implementation of the Compromise Agreement and Amicable Settlement (Compromise Agreement) executed by the Parent Company with the United Coconut Planters Bank (UCPB) and the Coconut Industry Investment Fund (CIIF) Holding Companies in connection with the purchase of the common shares of the Parent Company under an agreement executed on March 26, 1986.

Certain parties have opposed the Compromise Agreement. The right of such parties to oppose, as well as the propriety of their opposition, has been the subject matters of cases before the Sandiganbayan and the Supreme Court.

On September 14, 2000, the Supreme Court upheld a Sandiganbayan Resolution requiring the Parent Company to deliver the 25,450,000 common shares that were reverted to treasury in 1991 to the PCGG and to pay the corresponding dividends on the said shares (the "Sandiganbayan Resolution").

On October 10, 2000, the Parent Company filed a motion for reconsideration with the Supreme Court to be allowed to comply with the delivery and payment of the dividends on the treasury shares only in the event that another party, other than the Parent Company, is declared owner of the said shares in the case for forfeiture (Civil Case) filed by the Philippine government (Government).

On April 17, 2001, the Supreme Court denied the motion for reconsideration.

On September 19, 2003, the PCGG wrote the Parent Company to deliver to the PCGG the stock certificates and cash and stock dividends under the Sandiganbayan Resolution upheld by the Supreme Court. The Parent Company referred the matter to its external financial advisor and external legal counsel for due diligence and advice. The external financial advisor presented to the BOD on December 4, 2003 the financial impact of compliance with the resolution considering "with and without due compensation" scenarios, and applying different rates of return to the original amount paid by the Parent Company. The financial advisor stated that if the Parent Company is not compensated for the conversion of the treasury shares, there will be: (a) a negative one-off EPS impact in 2003 of approximately 17.5%; (b) net debt increase of approximately P2,100 million; and (c) a negative EPS impact of 6.9% in 2004. The external legal counsel at the same

meeting advised the BOD that, among others, the facts reviewed showed that: (a) the compromise shares had not been validly sequestered; (b) no timely direct action was filed to nullify the transaction; (c) no rescission can be effected without a return of consideration; and (d) more importantly, requiring the Parent Company to deliver what it acquired from the sellers without a substantive ground to justify it, and a direct action in which the Parent Company is accorded full opportunity to defend its rights, would appear contrary to its basic property and due process rights. The external legal counsel concluded that the Parent Company has “legal and equitable grounds to challenge the enforcement” of the Sandiganbayan Resolution.

On January 29, 2004, the external legal counsel made the additional recommendation that the Parent Company should file a Complaint-in-Intervention in the Civil Case (now particularly identified as SB Civil Case No. 0033-F), the forfeiture case brought by the Government involving the so-called CIIF block of the Parent Company shares of stock of which the treasury shares were no longer a portion. The Complaint-in-Intervention would pray that any judgment in the Civil Case forfeiting the CIIF block of the Parent Company shares of stock should exclude the treasury shares.

At its January 29, 2004 meeting, the BOD of the Parent Company unanimously decided to: (a) deny the PCGG demand of September 19, 2003, and (b) authorize the filing of the Complaint-in-Intervention. Accordingly, the external legal counsel informed the PCGG of the decision of the Parent Company and the Complaint-in-Intervention was filed in the Civil Case.

In a Resolution dated May 6, 2004, the Sandiganbayan denied the Complaint-in-Intervention. The external legal counsel filed a Motion for Reconsideration, which was denied by the Sandiganbayan in its Decision dated November 28, 2007.

The external legal counsel advised that because the Sandiganbayan had disallowed the Parent Company’s intervention, the Sandiganbayan’s disposition of the so-called CIIF block of the Parent Company shares in favor of the Government cannot bind the Parent Company, and that the Parent Company remains entitled to seek the nullity of that disposition should it be claimed to include the treasury shares.

The external legal counsel also advised that the Government has, in its own court submissions: (i) recognized the Parent Company’s right to the treasury shares on the basis that the Compromise Agreement is valid and binding on the parties thereto; and (ii) taken the position that the Parent Company and UCPB had already implemented the Compromise Agreement voluntarily, and that the PCGG had conformed to the Agreement and its implementation.

The Executive Committee of the Parent Company approved the recommendation of external legal counsel on January 18, 2008 which was ratified by the BOD on March 6, 2008.

On July 23, 2009, the stockholders of the Parent Company approved the amendment of the Articles of Incorporation to issue Series “1” preferred shares, and the offer to exchange common shares to Series “1” preferred shares. The PCGG, with the approval of the Supreme Court in its Resolution dated September 17, 2009, converted the sequestered common shares in the Parent Company in the name of the CIIF Holding Companies, equivalent to 24% of the outstanding capital stock, into Series “1” preferred shares.

On February 11, 2010, the Supreme Court, amending its Resolution dated September 17, 2009, authorized the PCGG to exercise discretion in depositing in escrow, the net dividend earnings on, and/or redemption proceeds from, the Series “1” preferred shares

of the Parent Company, either with the Development Bank of the Philippines/Land Bank of the Philippines or with the UCPB. All dividends accruing to the Series “1” preferred shares are remitted to the escrow account established with UCPB.

On October 5, 2012, the Parent Company redeemed all Series “1” preferred shares including those Series “1” preferred shares in the name of the CIIF Holding Companies. Proceeds of such redemption with respect to Series “1” preferred shares in the name of the CIIF Holding Companies, including all accumulated dividends were paid to the National Treasury. As at October 5, 2012, CIIF Holding Companies are no longer stockholders of the Parent Company.

On June 30, 2011, the PCGG filed with the Supreme Court an Urgent Motion to Direct the Parent Company to comply with the Sandiganbayan Resolution (the “Urgent Motion”). On March 30, 2012, the Parent Company filed a Comment on the Urgent Motion in compliance with the Supreme Court’s Resolution dated December 13, 2011 in G.R. Nos. 180705, 177857-58 and 178193, which was received by the Parent Company on February 22, 2012, directing the Parent Company to file its Comment on the Urgent Motion. The Supreme Court, in the Resolution of April 24, 2012 noted the comment of the Parent Company.

Thereafter, the PCGG filed in G.R. Nos. 177857-58 and 178193 a “Manifestation and Omnibus Motion 1) To Amend the Resolution Promulgated on September 4, 2012 to Include the “Treasury Shares” which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government; and 2) To Direct SMC to Comply with the Final and Executory Resolutions Dated October 24, 1991 and March 18, 1992 of the Sandiganbayan Which Were Affirmed by the Honorable Court in G.R. Nos. 104637-38” (“Manifestation and Omnibus Motion”).

The Supreme Court, in the Resolution of November 20, 2012 in G.R. Nos. 177857-58 and 178193, required the Parent Company to comment on COCOFED, et al.’s “Manifestation” dated October 4, 2012 and PCGG’s “Manifestation and Omnibus Motion.” Atty. Estelito P. Mendoza, counsel for Eduardo M. Cojuangco, Jr. in G.R. No. 180705, who is a party in that case, filed a “Manifestation Re: ‘Resolution’ dated November 20, 2012,” dated December 17, 2012, alleging that (a) Mr. Cojuangco, Jr. is not a party in G.R. Nos. 177857-58 and 178193 and he has not appeared as counsel for any party in those cases; (b) the Parent Company is likewise not a party in those cases, and if the Parent Company is indeed being required to comment on the pleadings in the Resolution of November 20, 2012, a copy of the Resolution be furnished the Parent Company; and (c) the Supreme Court had already resolved the motion for reconsideration in G.R. Nos. 177857-58 and 178193 and stated that “no further pleadings shall be entertained, thus, any motion filed in the said cases thereafter would appear to be in violation of the Supreme Court’s directive”.

In its Resolution of June 4, 2013 in G.R. Nos. 177857-58 and 178193, the Supreme Court required the Parent Company to file its comment on the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and (b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor General for respondent Republic of the Philippines, as required in the Supreme Court Resolution, dated November 20, 2012, within ten (10) days from notice thereof.

In the Resolution, dated September 10, 2013, the Supreme Court directed the Parent Company, through its counsel or representative, to immediately secure from the Office of the Clerk of Court of the Supreme Court *En Banc* photocopies of the (a) Manifestation, dated October 4, 2012 filed by petitioners COCOFED, et al. and

(b) Manifestation and Omnibus Motion dated October 12, 2012 filed by the Office of the Solicitor, and granted the Parent Company's motion for a period of thirty (30) days from receipt of the pleadings within which to file the required comment per resolutions dated November 20, 2012 and June 4, 2013.

The Parent Company, thru external counsel, filed the following comments required in the Supreme Court Resolution of June 4, 2013 in G.R. Nos. 177857-58; (a) "Comment of San Miguel Corporation on the 'Manifestation' of Petitioners COCOFED, et al., Dated October 4, 2012" on November 6, 2013; and (b) "Comment of San Miguel Corporation on the 'Manifestation and Omnibus Motion...' Dated October 12, 2012 of the Respondent Republic" on December 3, 2013.

In the Entry of Judgment received on January 27, 2015, the Supreme Court entered in the Book of Entries of Judgments the Resolution of September 4, 2012 in G.R. Nos. 177857-58 and G.R. No. 178193 wherein the Supreme Court clarified that the 753,848,312 SMC Series "1" preferred shares of the CIIF companies converted from the CIIF block of SMC shares, with all the dividend earnings as well as all increments arising therefrom shall now be the subject matter of the January 29, 2012 Decision and declared owned by the Government and used only for the benefit of all coconut farmers and for the development of the coconut industry. Thus, the fallo of the Decision dated January 24, 2012 was accordingly modified.

In the meantime, the Parent Company has available cash and shares of stock for the dividends payable on the treasury shares, in the event of an unfavorable ruling by the Supreme Court.

On October 5, 2016, the Supreme Court of the Philippines in G.R. Nos. 177857-58 and 178193 issued a Judgment denying the "Manifestation and Omnibus Motion" filed by the Presidential Commission on Good Government to amend the Resolution Promulgated on September 4, 2012 to Include the "Treasury Shares" Which are Part and Parcel of the 33,133,266 Coconut Industry Investment Fund (CIIF) Block of San Miguel Corporation (SMC) Shares of 1983 Decreed by the Sandiganbayan, and Sustained by the Honorable Court, as Owned by the Government. The denial of the motion is without prejudice to the right of the Republic of the Philippines to file the appropriate action or proceeding to determine the legal right of the Parent Company to the 25,450,000 treasury shares of the Parent Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines.

c. Deficiency Excise Tax/Excess Excise Tax Payments

Filed by the Parent Company

In 2004, the Parent Company was assessed by the BIR of excise taxes on "San Mig Light" which at that time was one of its products. These assessments were contested by the Parent Company but nonetheless made the corresponding payments. Consequently, the Parent Company filed three claims for refund for overpayments of excise taxes with the BIR which were then elevated to the Court of Tax Appeals (CTA) by way of petition for review. The details of such claims for refunds are as follows:

- (a) first claim for refund of overpayments for the period from February 2, 2004 to November 30, 2005 was filed on January 31, 2005 with the CTA First Division docketed as CTA Case No. 7405;
- (b) second claim for refund of overpayments for the period of December 31, 2005 to July 31, 2007 was filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7708; and

- (c) third claim for refund of overpayments for the period of August 1, 2007 to September 30, 2007 filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7953.

In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on “San Mig Light” at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

On the first claim for refund. On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter’s claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from February 1, 2004 to November 30, 2005.

A motion for reconsideration filed by the BIR Commissioner on the aforesaid decision was denied and the Commissioner elevated the decision to CTA *En Banc* for review, which was docketed as CTA EB No. 873, the same was dismissed in a Decision dated October 24, 2012. The subsequent Motion for Reconsideration filed by the Commissioner was likewise denied. The CTA *En Banc* Decision was later elevated by the Office of the Solicitor General to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

In a Resolution dated July 21, 2014, a copy of which was received by the Parent Company’s counsel on August 27, 2014, the Third Division of the Supreme Court required the parties to submit memoranda. Both the Parent Company’s counsel and the BIR Commissioner, through the Office of the Solicitor General, filed their respective memorandum.

On January 25, 2017, the Supreme Court decided in the consolidated cases of G.R. Nos. 205045 and 205723 to uphold the decision of the CTA requiring the BIR to refund excess taxes erroneously collected in the amount of P926 million for the period of December 1, 2005 to July 31, 2007, and P782 million for the period of February 2, 2004 to November 30, 2005. The Office of the Solicitor General filed motions for reconsideration, which were denied by the Supreme Court with finality on April 19, 2017. On November 12, 2018, after the cases under G.R. Nos. 205045 and 205723 were remanded by the Supreme Court to the CTA, the Parent Company filed a motion for execution in CTA Cases Nos. 7052, 7053 and 7405 on the final judgment of the CTA of P782 million representing refund of excess taxes erroneously collected for the period of February 2, 2004 to November 30, 2005; and another and separate motion for execution in CTA Case No. 7708 on the final judgment of P926 million for the period of December 1, 2005 to July 31, 2007. On April 4, 2019, the Writ of Execution in CTA Case No. 7708 was issued by the Court and subsequently served on the BIR Commissioner, and on April 11, 2019, the Writ of Execution in CTA Case No. 7405 (consolidated with CTA Cases Nos. 7052 and 7053) was also issued and served on the Commissioner.

As at March 12, 2020, the application for the issuance of tax credit certificate was already completed and ready for submission to the BIR.

On the second claim for refund. On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the Parent Company’s petition

for review on its claim for refund and ordering respondent Commissioner of Internal Revenue (CIR) to refund or issue a tax credit certificate in favor of the Parent Company in the amount of P926 million, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on “San Mig Light” during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA EB No. 755. The Office of the Solicitor General filed with the Supreme Court a Petition for Review which was docketed as G.R. No. 205045.

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

Filed by SMB

SMB filed eleven claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

- (a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);
- (b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);
- (c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);
- (d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);
- (e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);
- (f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 19, 2014);
- (g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 22, 2015);
- (h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 28, 2016);
- (i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - First Division docketed as CTA Case No. 9743 (December 29, 2017);

- (j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 – Third Division docketed as CTA Case No. 10000 (December 27, 2018); and
- (k) eleventh claim for refund of overpayments for the period from January 1, 2018 to December 31, 2018 – First Division docketed as CTA Case No. 10223 (December 6, 2019).

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P828 million and the amount of P106 million to SMC. The BIR appealed to the CTA *En Banc* which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. The Writ of Execution was issued on March 18, 2019 by the CTA Special Second Division in the amount of P828 million. SMB filed an application for the issuance of a Tax Credit Certification with the BIR on August 22, 2019.

CTA Case No. 8209 was decided in favor of SMB by the CTA First Division, ordering the BIR to refund the amount of P731 million. The case was not appealed by the BIR within the prescribed period, thus, the decision was deemed final and executory. The First Division granted SMB's Motion for Execution, while the BIR filed a petition for certiorari before the Supreme Court, where it was docketed as G.R. No. 221790. The petition was dismissed by the Supreme Court with finality but the BIR still filed an urgent motion for clarification. Subsequently, SMB, through counsel, received a clarificatory resolution dated February 20, 2017 wherein the Supreme Court reiterated its grounds for the denial of the BIR's petition for certiorari. SMB filed an application for the issuance of a Tax Credit Certificate in the amount of P731 million. On November 6, 2019, the BIR issued a Tax Credit Certificate No. TCC201600000202 in favor of SMB.

CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA *En Banc*, ordering the BIR to refund the amount of P699 million. The BIR filed a motion for reconsideration, which the CTA *En Banc* denied. Subsequently, the BIR elevated the decision of the CTA *En Banc* to the Supreme Court by way of petition for review, where it was docketed as G.R. No. 226768. On March 20, 2017, the Supreme Court denied the petition for review, thereby affirming the CTA *En Banc* decision. The Office of the Solicitor General filed a motion for reconsideration, which was denied on July 24, 2017. On January 23, 2019, after the Supreme Court remanded the case to the CTA, SMB filed a motion for execution with the CTA. On May 30, 2019, CTA Special Third Division issued a Writ of Execution in the amount of P699 million in favor of SMB. SMB filed an application for Tax Credit Certificate on August 5, 2019. The BIR issued Tax Credit Certificate No. TCC201600000204 in favor of SMB on November 13, 2019.

CTA Case No. 8591 was decided in favor of SMB by the CTA Second Division and CTA *En Banc*. The BIR was ordered to refund to SMB the amount of P740 million. The BIR elevated the case to the Supreme Court by way of petition for review (docketed as G.R. No. 232776), where it was denied on February 21, 2018. The BIR filed a Motion for Reconsideration, which was denied with finality on July 23, 2018. SMB filed a motion for the execution of the decision with the CTA Second Division.

The CTA Second Division issued a Writ of Execution in the amount of P740 million on November 13, 2019. SMB filed an application for Tax Credit Certificate with the BIR in January 2020.

In CTA Case No. 8748, the Second Division rendered a decision on June 9, 2017, granting SMB's claim for refund of P761 million, which was appealed by the BIR to the CTA *En Banc*. On October 11, 2018, the CTA *En Banc* rendered its decision in this case denying the CIR's petition for review and affirming the decision of the CTA Second Division. On November 5, 2018, the CIR filed a motion for reconsideration, to which SMB filed an opposition. On March 8, 2019, the CTA *En Banc* denied the Commissioner's Motion for Reconsideration on its Decision dated October 11, 2018. Subsequently, on June 6, 2019, the Commissioner appealed to the Supreme Court by way of a Petition for Review the Decision dated October 11, 2018 and Resolution dated March 8, 2019 of the CTA *En Banc*. The case is still pending in the Supreme Court.

The petition for review in CTA Case No. 8955 was denied by the Third Division on the ground that the same involves a collateral attack on issuances of the BIR, the court ruling that the petition should have been filed in the Regional Trial Court (RTC). SMB through counsel filed a motion for reconsideration, arguing that the case involves a claim for refund and is at the same time a direct attack on the BIR issuances which imposed excise tax rates which are contradictory to, and violative of, the rates imposed in the Tax Code. In a resolution dated January 5, 2018, the Third Division denied the motion for reconsideration. On February 14, 2018, SMB appealed the decision of the CTA Third Division denying its petition for review to the CTA *En Banc* by way of a petition for review. On September 19, 2018, the CTA *En Banc* issued its decision in this case, which reversed and set aside the decision of the CTA Third Division denying SMB's petition for review and remanded the case to the said Division for the resolution of the case on the merits. On October 10, 2019, the Commissioner filed a motion for reconsideration on the aforesaid decision which was denied. Subsequently, on March 25, 2019, the BIR Commissioner filed with the Supreme Court a Motion for Extension of Time to file a Petition for Review on the Decision dated September 19, 2018 and Resolution dated January 24, 2019 of the CTA *En Banc*. On May 16, 2019, the Commissioner filed a Manifestation with the Supreme Court that he opted not to file a Petition for Review on Certiorari but will pursue the case in the CTA Third Division to which it was ordered remanded by the CTA *En Banc*. On the basis of the Commissioner's aforesaid Manifestation, the Supreme Court, in a Resolution dated January 9, 2020, declared the case before it closed and terminated. SMB will now pursue CTA Case No. 8955 in the CTA Third Division to which it was remanded by the CTA *En Banc*.

In CTA Case No. 9223, the CTA Third Division, on April 11, 2019, rendered its Decision partially granting SMB's Claim for Refund to the extent of P56 million but disallowing and denying its Claim for Refund of excess excise taxes paid on "San Mig Light" (SML) in kegs in the amount of P5 million. On May 10, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P5 million, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P5 million in addition to, and apart from, the amount of P56 million which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA Third Division.

In CTA Case No. 9513, the CTA Second Division rendered its Decision on June 13, 2019, partially granting SMB's Claim for Refund to the extent of P44 million but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P4 million. On June 26, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P4 million,

be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P4 million in addition to, and apart from, the amount of P44 million which was ordered refunded to it. On September 17, 2019, the CTA Second Division issued a Resolution denying SMB's Motion for Partial New Trial. On October 15, 2019, SMB elevated the Decision dated June 13, 2019 and Resolution dated September 17, 2019 of the CTA Second Division to the CTA *En Banc* by way of a Petition for Review. In the meantime, on October 24, 2019, the Commissioner also filed with the CTA *En Banc* a Petition for Review on the same Decision of the CTA Second Division. The Petitions for Review of SMB and the Commissioner are presently pending in the CTA *En Banc*.

On October 14, 2019, in CTA Case No. 9743, the CTA First Division rendered its Decision partially granting SMB's Claim for Refund to the extent of P28 million but disallowing and denying its Claim for Refund of excess excise taxes paid on SML in kegs in the amount of P3 million. On October 29, 2019, SMB filed a Motion for Partial New Trial, praying that the portion of the Decision of the Court which disallowed and denied SMB's claim for excess excise taxes paid on SML in kegs in the amount of P3 million, be set aside, and in lieu thereof, the Commissioner be ordered to refund to SMB the amount of P3 million in addition to, and apart from, the amount of P28 million which was ordered refunded to it. The aforesaid Motion for Partial New Trial is still pending in the CTA First Division.

In CTA Case No. 10000, on March 15, 2019, the BIR Commissioner filed his Answer to the Petition for Review. The case was scheduled for pre-trial conference on June 25, 2019, and thereafter, the presentation of SMB's witnesses was held on August 15, 2019 and September 17, 2019. On September 25, 2019, SMB submitted its Formal Offer of Evidence. The aforesaid Formal Offer of Evidence is still under consideration by the Court.

On February 20, 2020, the BIR Commissioner filed his Answer to the Petition for Review in CTA Case No. 10223. Thereafter, the case was set for Pre-Trial on March 26, 2020.

Filed by GSMI

GSMI filed two claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review as follows:

- (a) CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amount of P582 million in Case No. 8953, and P133 million in Case No. 8954, or in the total amount of P715 million, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence. The CTA admitted all of GSMI's evidence while the BIR's Formal Offer of Evidence and GSMI's Comment thereto are still under consideration of the CTA.

These cases are still pending with the CTA.

- (b) CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26 million, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2019, the CTA denied the GSMI's Claim for Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said decision, which is still pending resolution.

The aforementioned assessments and collection cases arose from the imposition and collection of excise taxes on GSMI's finished products processed and produced exclusively from its inventory of ethyl alcohol, notwithstanding that excise taxes had already been previously paid by GSMI on the said ethyl alcohol.

d. Deficiency Tax Liabilities

Iconic Beverages, Inc. (IBI)

The BIR issued a Final Assessment Notice dated March 30, 2012 (2009 Assessment), imposing on IBI deficiency tax liabilities, including interest and penalties, for the tax year 2009. IBI treated the royalty income earned from the licensing of its intellectual properties to SMB as passive income, and therefore subject to 20% final tax. However, the BIR is of the position that said royalty income is regular business income subject to the 30% regular corporate income tax.

On May 16, 2012, IBI filed a protest against the 2009 Assessment. In its Final Decision on Disputed Assessment (FDDA) issued on January 7, 2013, the BIR denied IBI's protest and reiterated its demand to pay the deficiency income tax, including interests and penalties. On February 6, 2013, IBI filed a Petition for Review before the CTA contesting the 2009 Assessment. The case was docketed as CTA Case No. 8607 with the First Division. On August 14, 2015, the CTA First Division partially granted the Petition for Review of IBI, by cancelling the compromise penalty assessed by the BIR. However, IBI was still found liable to pay the deficiency income tax, interests and penalties as assessed by the BIR. The Motion for Reconsideration was denied by the CTA First Division on January 6, 2016. On January 22, 2016, IBI filed its Petition for Review before the CTA *En Banc* and the case was docketed as CTA EB Case No. 1417. To interrupt the running of interests, IBI filed a Motion to Pay without Prejudice, which was granted by the CTA *En Banc*. As a result, IBI paid the amount of P270 million on August 26, 2016. On January 30, 2018, the CTA *En Banc* rendered a decision affirming the decision of the CTA First Division. IBI filed a Motion for Partial Reconsideration and the BIR filed its Motion for Reconsideration, which were denied by CTA *En Banc* in a resolution dated July 16, 2018. IBI and the BIR elevated the case to the Supreme Court with IBI filing its Petition for Review on Certiorari on September 7, 2018 docketed as G.R. Nos. 241147-48 and was raffled to the First Division of the Supreme Court. On the other hand, the BIR's Petition was docketed as G.R. Nos. 240651 and 240665 and was raffled to the Second Division of the Supreme Court.

On January 16, 2019, the Supreme Court denied IBI's Petition to which a Motion for Reconsideration was filed by IBI on April 5, 2019.

On September 3, 2019, IBI filed a Motion to Consolidate G.R. Nos. 241147-48 and G.R. Nos. 240651 and 240665.

On October 3, 2019, IBI received a Resolution dated June 26, 2019 denying its Motion for Reconsideration. IBI also filed a Manifestation on October 21, 2019 informing the Court that in view of its payment of P270 million on August 26, 2016, IBI shall be deemed to have fully satisfied the judgment award in accordance with the CTA First

Division's Decision dated August 14, 2015.

On February 4, 2020, the IBI received a Resolution dated October 4, 2019 denying its Motion to Consolidate.

On March 11, 2019, the Supreme Court issued a Resolution requiring IBI to file its comment to the BIR's Petition. IBI filed its Comment on June 17, 2019.

On October 21, 2019, IBI filed a Manifestation informing the Supreme Court that the issuance of its Resolution dated June 26, 2019 in G.R. Nos. 241147-48 rendered the BIR's Petition as moot and academic. The case is still pending with the Supreme Court for resolution.

In its Manifestation and Motion dated January 28, 2020 filed before the Supreme Court, the BIR confirmed the execution of a Compromise Agreement in connection with its pending Petition for Review and sought permission to be allowed to withdraw its Petition docketed as G.R. Nos. 240651 and 250665.

The case is still pending with the Supreme Court for resolution.

On November 17, 2013, IBI received a Formal Letter of Demand with the Final Assessment Notice for tax year 2010 (2010 Assessment) from the BIR with a demand for payment of income tax and VAT deficiencies with administrative penalties. The BIR maintained its position that royalties are business income subject to the 30% regular corporate tax. The 2010 Assessment was protested by IBI before the BIR through a letter dated November 29, 2013. A Petition for Review was filed with the CTA Third Division and the case was docketed as CTA Case No. 8813. The CTA Third Division held IBI liable to pay deficiency income tax, interests and penalties. IBI thus filed its Petition for Review before the CTA *En Banc* (docketed as CTA EB No 1563 and 1564). In 2017, IBI filed an application for abatement, with corresponding payment of basic deficiency tax, in the amount of P110 million, where IBI requested for the cancellation of the surcharge and interests. On September 19, 2018, the CTA *En Banc* did not consider the payment of basic deficiency tax of P110 million for failure to attach certain requirements relating to the application for abatement; thus IBI was ordered to pay a modified amount of P501 million in light of the amendments under RA No. 10963, also known as Tax Reform for Acceleration and Inclusion (TRAIN Law), on interest. IBI filed a Motion for Reconsideration and, at the same time, submitted the original documents in relation to the application for abatement. The BIR also filed its Motion for Partial Reconsideration, to which IBI filed its Comment/Opposition. The CTA *En Banc* has likewise ordered the BIR to file its Comment/Opposition to IBI's Motion for Reconsideration but IBI has yet to receive the same. Meanwhile, IBI's application for abatement remains pending for resolution by the BIR. As at December 31, 2018 the Group recognized a provision amounting to P52 million.

Noting the BIR's failure to file its Comment/Opposition, the Court issued a Resolution dated April 17, 2019, which IBI received on May 9, 2019, denying the BIR's Motion for Partial Reconsideration of the CTA *En Banc* Decision promulgated on September 18, 2018 filed by the BIR and partially granting the Motion for Reconsideration filed by IBI of said CTA *En Banc* Division.

IBI and the BIR filed their respective Petitions for Review with the Supreme Court docketed as G.R. Nos. 246911 and 246865, respectively. Both Petitions were consolidated by the Supreme Court through a Resolution dated July 1, 2019.

IBI filed a Manifestation and Motion on November 27, 2019 praying for the deferment of the resolution of the consolidated Petitions in view of the pending compromise

settlement of the parties. On December 4, 2019, IBI received the BIR's Manifestation informing the Supreme Court that it received a Proposal for Compromise/Amicable Settlement from IBI.

On December 27, 2019, IBI filed a Manifestation informing the Supreme Court that on December 5, 2019 and December 16, 2019, IBI and the BIR, respectively, executed a Compromise Agreement to amicably settle IBI's deficiency taxes for taxable year 2010. In its Manifestation dated February 26, 2020, the BIR confirmed receipt of payment pursuant to the Compromise Agreement executed between the IBI and the BIR. The case is still pending with the Supreme Court for resolution.

On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax (DST) and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. In the meantime, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending at the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to the CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three Divisions of the Court.

On March 2, 2020, the CTA First Division promulgated its Decision partially granting IBI's Petition for Review. The assessment for deficiency income tax, VAT, DST and compromise penalty are cancelled and set aside. However, the assessment for deficiency expanded withholding tax is affirmed and IBI was ordered to pay deficiency expanded withholding tax including interest and surcharges amounting to P5 million.

SMFI

- i. SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. CIR CTA Case 9046, First Division.

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, a FDDA was issued by the BIR on January 14, 2015 upholding the deficiency income tax, VAT and DST assessments against SMFI.

SMFI filed a Request for Reconsideration with the CIR on February 6, 2015. On April 21, 2015, SMFI received a letter from the CIR informing SMFI of the CIR's denial of the request for reconsideration.

The Petition for Review was filed with the CTA First Division on May 15, 2015 and docketed as CTA Case No. 9046.

The CTA First Division, on February 12, 2018, granted the Petition for Review filed by SMFI based on the following grounds: (1) the Formal Letter of Demand/Final Assessment Notice issued by the BIR was void as it did not contain demand to pay taxes due within a specific period; and (2) lack of valid Letter of Authority. Accordingly, the Formal Letter of Demand/Final Assessment Notice issued against SMFI for deficiency income tax, VAT and DST for the period January 1 to August 31, 2010 and the FDDA, for being intrinsically void, were ordered cancelled.

On March 1, 2018, the BIR filed a Motion for Reconsideration with the CTA First Division, which SMFI opposed. On March 16, 2018, SMFI, through external counsel, filed an Opposition to the Motion for Reconsideration filed by the BIR.

On June 4, 2018, the CTA First Division denied the BIR's Motion for Reconsideration. BIR filed the Petition for Review before the CTA *En Banc* on July 13, 2018.

On August 17, 2018, SMFI filed Comment on the Petition for Review filed by the BIR. Per Resolution of the CTA *En Banc* dated September 7, 2018, the Petition for Review is deemed submitted for decision by the Court.

On August 6, 2019, the CTA *En Banc* denied Petition for Review filed by the BIR. The Decision affirmed the withdrawal and cancellation of the assessment issued against SMFI covering the period January 1, 2010 to August 31, 2010.

The BIR filed a Motion for Reconsideration of the decision of the CTA *En Banc* on September 6, 2019. SMFI's Comment on the Motion for Reconsideration of the BIR was filed on October 18, 2019.

In a Resolution dated January 7, 2020, the CTA *En Banc* has denied the Motion for Reconsideration filed by the BIR. A Petition for Review on Certiorari dated March 2, 2020 was filed by the BIR with the Supreme Court.

ii. SMFI vs. CIR CTA Case No. 9241, First Division

On December 16, 2015, an FDDA was issued by the BIR assessing deficiency income tax and VAT against SMFI in connection to the tax investigation for the period January 1 to December 31, 2010.

The deficiency income tax and VAT pertain to the disallowed NOLCO and input tax credits which were transferred to and vested in SMFI from MFC by operation of law as a result of the merger between SMFI and MFC. According to the BIR, as the ruling (BIR Ruling 424-14 dated October 24, 2014) issued in connection to the merger of SMFI and MFC did not contain an opinion on the assets and liabilities transferred during the merger, the NOLCO and input tax credits from MFC were disallowed. However, it is SMFI's position that the use of the NOLCO and input tax credit from MFC, as the surviving corporation pursuant to a statutory merger is proper, as the same is allowed by law, BIR issuances and confirmed by several BIR rulings prevailing at the time of the transaction.

On January 14, 2016, SMFI filed a Petition for Review before the CTA First Division and docketed as CTA Case No. 9241. On September 2, 2016, Judicial Affidavits for SMFI witnesses were submitted to the CTA and said witnesses were presented for cross examination on July 25 and August 22, 2017, respectively. On May 10, 2018, witness for the BIR was presented before the Court for cross examination.

On September 28, 2018, the case was transferred to the Third Division of the CTA pursuant to Administrative Circular No. 02-2018.

On October 2, 2019, the CTA Third Division rendered decision granting SMFI's Petition for Review and cancelling the deficiency income tax and VAT assessment issued by the BIR.

On November 4, 2019, the BIR filed a Motion for Reconsideration of the decision of the CTA Third Division. SMFI filed a Comment on the Motion for Reconsideration on November 29, 2019.

On a Resolution dated March 2, 2020, the CTA Third Division has denied Motion for Reconsideration filed by the BIR.

iii. SMFI vs. Office of the City Treasurer, City of Davao

On August 23, 2018, SMFI filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 209. On November 12, 2018, the Company filed Petition for Review with the CTA Second Division docketed as CTA Case AC No. 210. Both petitions were filed to appeal the joint decision of the RTC of Davao City dismissing SMFI's appeal from the denial and inaction of the Office of the City Treasurer of Davao City on the protest against the assessment of permit fee to slaughter.

SMFI protested the assessment of the City Treasurer of Davao City imposing permit fee to slaughter against its dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District both located in Davao City.

It is SMFI's position that Section 367 (a) of the 2005 Revenue Code of the City of Davao (Revenue Code of Davao City) on the imposition of permit fee to slaughter is applicable only to slaughterhouses operated by the City Government of Davao City. SMFI's dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District, being privately owned and operated slaughterhouses is beyond the coverage of Section 357 (a) of the Revenue Code of Davao City. In addition, given that SMFI is already paying ante and post mortem fees for the slaughter of poultry products pursuant to Section 367 (d) of the same Revenue Code, the assessment of permit fee to slaughter would constitute double taxation.

By the order of CTA dated September 24, 2018, Case CTA AC No. 209 was transferred to the First Division of the CTA. In a resolution dated October 25, 2018 CTA First Division resolved to give due course to SMFI's Petition for Review. SMFI submitted the required memorandum on December 19, 2018. And on March 28, 2019, CTA declared Case AC No. 209 as submitted for decision.

In a resolution dated February 1, 2019 on SMFI's Petition for Review on CTA Case AC No. 210, the CTA First Division required the parties to submit the respective Memorandum on this case. On May 7, 2019, SMFI submitted the required Memorandum, awaiting the court's decision.

e. Tax Credit Certificates Cases

In 1998, the BIR issued a deficiency excise tax assessment against Petron relating to its use of P659 million worth of Tax Credit Certificates (TCCs) to pay certain excise tax obligations from 1993 to 1997. The TCCs were transferred to Petron by suppliers as payment for fuel purchases. Petron contested the BIR's assessment before the CTA. In July 1999, the CTA ruled that as a fuel supplier of BOI-registered companies, Petron was a qualified transferee of the TCCs and that the collection by the BIR of the alleged deficiency excise taxes was contrary to law. On March 21, 2012, the Court of Appeals promulgated a decision in favor of Petron and against the BIR affirming the ruling of the CTA striking down the assessment issued by the BIR to Petron. On April 19, 2012, a motion for reconsideration was filed by the BIR, which was denied by the Court of Appeals in its resolution dated October 10, 2012. The BIR elevated the case to the Supreme Court through a petition for review on certiorari dated December 5, 2012. On

July 9, 2018, the Supreme Court rendered a decision in favor of Petron denying the petition for review filed by the BIR and affirming the decision of the Court of Appeals. No motion for reconsideration for such decision relating to Petron was filed by the BIR. The Supreme Court issued its Entry of Judgment declaring that its decision dated July 9, 2018 in Petron's favor already attained finality on April 1, 2019. This case would now be considered closed and terminated.

f. Oil Spill Incident in Guimaras

On August 11, 2006, MT Solar I, a third party vessel contracted by Petron to transport approximately two million liters of industrial fuel oil, sank 13 nautical miles southwest of Guimaras, an island province in the Western Visayas region of the Philippines. In separate investigations by the Philippine Department of Justice (DOJ) and the Special Board of Marine Inquiry (SBMI), both agencies found the owners of MT Solar I liable. The DOJ found Petron not criminally liable, but the SBMI found Petron to have overloaded the vessel. Petron has appealed the findings of the SBMI to the DOTr and is awaiting its resolution. Petron believes that SBMI can impose administrative penalties on vessel owners and crew, but has no authority to penalize other parties, such as Petron, which are charterers.

Other complaints for non-payment of compensation for the clean-up operations during the oil spill were filed with the RTC of Guimaras by a total of 1,063 plaintiffs who allegedly did not receive any payment of their claims for damages arising from the oil spill. The total claims amounted to P292 million. The cases were pending as at December 31, 2019. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City, which, on January 9, 2020 issued a Resolution ordering Petron to file its comment on plaintiffs' petition within 10 days. Petron filed a motion for reconsideration of said Resolution, which remains pending. In the meantime, proceedings before the trial court continue.

g. Lease Agreements with Philippine National Oil Company (PNOC)

On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron.

The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from

possession of the subject properties until the case is decided.

The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. Petron also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13 2019, the trial court granted Petron's motion for summary judgment and ordered (i) the rescission of the Deeds of Conveyance dated 1993 relating to Petron's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to Petron of all such properties, and (iii) the payment by Petron to PNOC of the amount of P143 million, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. Petron also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to Petron all lease payments the latter had paid to PNOC since 1993. The motions for reconsideration were pending as at March 12, 2020.

Following the trial court's denial of PNOC's motion for reconsideration, PNOC filed a notice of appeal to the Court of Appeals, a copy of which was received by Petron on March 9, 2020.

h. Swakaya Sdn. Bhd. (Swakaya) Dispute

In 2015, a disputed trade receivable balance of RM25 million (P307 million) in favor of POMSB was reclassified to long-term receivables.

The dispute arose from the supply by POMSB of diesel to Swakaya. In 2013, POMSB entered into an agreement with Swakaya to supply it with diesel. Swakaya had agreements to supply power plants operator with diesel for power generation. Later, due to a government investigation, Swakaya's bank accounts were frozen and that affected its ability to supply the power plants. Swakaya and the power plants operator agreed to ask POMSB to supply the power plants operator directly and for the said operator to pay POMSB directly for diesel supplied. This arrangement commenced. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank (SDB) and the power plants operator was placed under an obligation to SDB to remit payments due to Swakaya to SDB. Due to some administrative issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. SDB then, despite its earlier promise to POMSB to remit the moneys to POMSB once POMSB establishes that the payment was for a direct supply to the power plants operator, refused and utilized the moneys to set off against Swakaya's debt to the bank. The sum involved was RM25 million (P307 million). POMSB sued Swakaya and SDB for, among others, breach of trust. Swakaya did not appear in court and judgment was awarded in favor of POMSB and against Swakaya.

In April 2016, the Kota Kinabalu High Court ruled in favor of the POMSB and a judgment sum inclusive of interest amounting to RM28 million (P343 million) was deposited to its solicitor account in August 2016. SDB subsequently filed an appeal to Court of Appeal.

In May 2017, the Court of Appeal re-affirmed the decision of the Kota Kinabalu High Court and dismissed SDB's appeal with costs RM0.015 million (P0.20 million) awarded to POMSB. In June 2017, SDB filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal, which was granted in April

2018. After hearing the appeal, in February 2020, the Federal Court allowed the appeal by SDB and set aside the Court of Appeal's decision, POMSB is exploring the possibility of a review of the said Federal Court decision.

Considering the length of time of litigation matters, a discount of RM8 million (P95 million) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 million (P20 million) was unwound this year and recognized as interest income.

The balance amounting to RM23 million (P282 million) was provided full impairment in 2019.

i. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan Independent Power Producer (IPP) Administration (IPPA) Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by the SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Total Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an Order dated June 27, 2016 (the "June 27, 2016 RTC Order"), the RTC denied PSALM's: (1) Motion for Reconsideration of the Order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to June 27, 2016 RTC

Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction “against public respondent RTC and its assailed orders”. The Court of Appeals, however, denied the petition filed by PSALM in its Decision dated December 19, 2017 (“CA Decision”). In the CA Decision, the Court of Appeals upheld the lower court’s issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (“CA Resolution”), the Court of Appeals denied PSALM’s Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the Supreme Court praying for the reversal and nullification of the CA Decision. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 (the “March 4, 2019 SC Resolution”) due to lack of payment and for PSALM’s failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of this Court’s discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the Supreme Court in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgment issued by the Supreme Court on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an Order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City. SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an Order denying PSALM’s Motion to Hear Affirmative Defense and granted SPPC’s Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its Opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much less reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the “First CA Resolution”), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the First CA Resolution.

Meanwhile, the proceedings before the RTC continues and by virtue of the Preliminary Injunction issued by the RTC, SPPC continues to be the IPP Administrator for the Ilijan Power Plant without any restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its PSA with the latter, or the ability of SPPC to take possession of the Ilijan Power Plant upon the expiry of the Ilijan IPPA Agreement in 2022.

j. Intellectual Property Rights

G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. The Supreme Court denied GSMI's Motion for Reconsideration with finality, as well as GSMI's Motion to Refer to its Motion for Reconsideration to the Supreme Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the "Manifestation") and invoked the case of *League of Cities vs. Commission of Elections* (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the Supreme Court *En Banc* issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter's resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI's Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

This case is still pending with the Supreme Court *En Banc*.

G.R. Nos. 210224 and 219632: These cases pertain to GSMI's Complaint for Unfair Competition, Trademark Infringement and Damages against Tanduary Distillers, Inc. (TDI) filed with the RTC, arising from TDI's distribution and sale of its gin product bearing the trademark "Ginebra Kapitan" and use of a bottle which general appearance was nearly identical and confusingly similar to GSMI's product. The RTC dismissed GSMI's complaint.

When GSMI elevated the case to the Court of Appeals, due to technicalities, two cases were lodged in the Court of Appeals: 1.) Petition for Review (CA-G.R. SP No. 127255), and 2.) Notice of Appeal (CA-G.R. SP No. 100332).

Acting on GSMI's Petition for Review, the Court of Appeals reversed, set aside the RTC's Decision, and ruled that "GINEBRA" is associated by the consuming public with GSMI. Giving probative value to the surveys submitted by GSMI, the Court of Appeals ruled that TDI's use of "GINEBRA" in "Ginebra Kapitan" produces a likelihood of confusion between GSMI's "Ginebra San Miguel" gin product and TDI's "Ginebra Kapitan" gin product. The Court of Appeals likewise ruled that "TDI knew fully well that GSMI has been using the mark/word "GINEBRA" in its gin products and that GSMI's "Ginebra San Miguel" had already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in 'Ginebra Kapitan' is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product, and that TDI 'has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel'".

TDI filed separate Petitions for Review on Certiorari with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court on April 18, 2016.

On October 26, 2016, GSMI filed its Comment TDI's Petition for Review on Certiorari.

These consolidated cases are still pending with the Supreme Court.

G.R. No. 216104: This case pertains to TDI's application for the registration of the trademark "GINEBRA KAPITAN" for Class 33 covering gin with the IPOPHL.

GSMI opposed TDI's application, alleging that it would be damaged by the registration of "GINEBRA KAPITAN" because the term "GINEBRA" has acquired secondary meaning and is now exclusively associated with GSMI's gin products. GSMI argued that the registration of "GINEBRA KAPITAN" for use in TDI's gin products will confuse the public and cause damage to GSMI. TDI countered that "GINEBRA" is generic and incapable of exclusive appropriation, and that "GINEBRA KAPITAN" is not identical or confusingly similar to GSMI's mark.

The IPOPHL ruled in favor of TDI and held that: (a) "GINEBRA" is generic for "gin"; (b) GSMI's products are too well known for the purchasing public to be deceived by a new product like "GINEBRA KAPITAN"; and (c) TDI's use of "GINEBRA" would supposedly stimulate market competition.

On July 23, 2014, the Court of Appeals reversed and set aside the IPOPHL's ruling and disapproved the registration of "GINEBRA KAPITAN". The Court of Appeals ruled that "GINEBRA" could not be considered as a generic word in the Philippines considering that, to the Filipino gin-drinking public, it does not relate to a class of liquor/alcohol but rather has come to refer specifically and exclusively to the gin products of GSMI.

TDI filed a Petition for Review on Certiorari with the Supreme Court, which was subsequently consolidated with the case of "*Tanduay Distillers, Inc. vs. Ginebra San Miguel Inc.*", docketed as G.R. No. 210224 on August 5, 2015.

On October 26, 2016, GSMI filed its Comments on TDI's Petition for Review on Certiorari.

This case is still pending with the Supreme Court.

k. Imported Industrial Fuel Oil

SL Harbor Bulk Terminal Corporation (SLHBTC) has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel

imported by SLHBTC with approximate value of P751 million. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 million or one and one-half times of the assessed amount of P82 million representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

By Order dated September 25, 2018, the case was transferred to the CTA First Division. SLHBTC's presentation of evidence is set on May 23, 2019.

As at December 31, 2019, the case is still pending with the CTA.

I. Criminal Cases

SPPC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the DOJ, against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, it was alleged that PSALM fraudulently misrepresented its entitlement to draw on the performance bond posted by SPPC, resulting in actual injury to SPPC in the amount US\$60 million. On June 13, 2017, the DOJ endorsed the complete records of the complaint to the Office of the Ombudsman for appropriate action where it is still pending to date.

On a related matter, on November 14, 2018, SPPC filed with the Office of the Ombudsman-Field Investigation Office, an administrative complaint against an executive officer of PSALM and several unidentified persons for violation of the Ombudsman Act and the Revised Administrative Code, in the performance of their functions as public officers. The case is still pending with the Ombudsman-Field Investigation Office.

SMEC

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA No. 3019, before the DOJ against a certain officer of PSALM, and certain officers of Team Philippines Energy Corp. (TPEC) and Team Sual Corporation, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC.

In a Resolution dated July 29, 2016, the DOJ found probable cause to file Information against the respondents for plunder and violation of Section 3(e) and 3(f) of RA No.

2019. The DOJ further resolved to forward the entire records of the case to the Office of the Ombudsman for their proper action. Respondents have respectively appealed said DOJ's Resolution of July 29, 2016 with the Secretary of Justice.

On October 25, 2017, the DOJ issued a Resolution partially granting the Petition for Review by reversing the July 29, 2016 DOJ Resolution insofar as the conduct of the preliminary investigation. On November 17, 2017, SMEC filed a motion for partial reconsideration of said October 25, 2017 DOJ Resolution. Said motion is still pending to date.

m. Civil Case

On June 17, 2016, SMEC filed with the RTC Pasig a civil complaint for consignment against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

On October 3, 2016, SMEC filed an Omnibus Motion To Admit Supplemental Complaint and To Allow Future Consignment without Tender ("Omnibus Option"). Together with this Omnibus Motion, SMEC consigned with the RTC Pasig an additional amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods from April 26, 2016 to July 25, 2016.

On July 5, 2017, SMEC consigned with the RTC Pasig the amount representing additional proceeds of Sale of the Excess Capacity for the billing period July 26, 2016 to August 25, 2016. SMEC also filed a Motion to Admit Second Supplemental Complaint in relation to said consignment.

On May 22, 2018, the RTC Pasig issued an order dismissing the complaint for consignment filed by SMEC on the ground that the court has no jurisdiction over the subject matter of the complaint.

On July 4, 2018, SMEC filed its Motion for Reconsideration to the May 22, 2018 order which dismissed the consignment case. The Motion for Reconsideration was heard on July 13, 2018 where the parties were given time to file their responsive pleadings. PSALM filed its Comment dated July 26, 2018 to the Motion for Reconsideration and SMEC filed its Reply to PSALM's Comment on August 13, 2018. To date, the said motion is still pending resolution.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case. Due to this refusal, the resolution of the Motion for Reconsideration is pending to date.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the Energy Regulatory Commission (ERC) against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the above mentioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at December 31, 2019 and 2018, the total amount consigned with the RTC Pasig is P491 million.

n. TRO Issued to Meralco

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction (“Petition”) filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco’s customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition (“Counter-Petition”) which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an order treating the Counter-Petition as in the nature of a third-party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the Supreme Court extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a resolution dated April 22, 2014, the Supreme Court extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the Supreme Court.

o. ERC Voiding WESM Prices

Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the “March 3, 2014 Order”). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

SMEC, SPPC, SPDC, SPI and MPPCL filed various pleadings requesting ERC for the reconsideration of the ERC order. Other generators also requested the Supreme Court to stop the implementation of the ERC order.

On June 26, 2014, SMEC, SPPC, SPDC and SPI filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC Orders dated March 3, 2014, March 27, 2014 and May 9, 2014 (the “2014 ERC Orders”). On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

After consolidating the cases, the Court of Appeals, in its decision dated November 7, 2017, granted the Petition for Review filed by SMEC, SPPC, SPDC, SPI and MPPCL, declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

In a Resolution dated March 22, 2018, the Court of Appeals denied the aforesaid motions. On June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC and SPPC filed Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming its decision dated November 7, 2017 and resolution dated March 22, 2018.

The intervenors thereafter filed petitions for certiorari before the Supreme Court, First Division. Each were denied by the Supreme Court through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the Court of Appeals committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners’ motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners’ motions for reconsideration of the denial of their respective motions to intervene.

Upon finality of the Decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322 million, plus interest.

- Electric Power Industry Reform Act (EPIRA)

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements.

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2019.

- Commitments

The outstanding purchase commitments of the Group amounted to P113,517 million as at December 31, 2019.

Amount authorized but not yet disbursed for capital projects is approximately P221,507 million as at December 31, 2019.

- Foreign Exchange Rates

The foreign exchange rates used in translating the US Dollar accounts of foreign subsidiaries and associates and joint ventures to Philippine peso were closing rates of P50.64 and P52.58 in 2019 and 2018, respectively, for consolidated statements of financial position accounts; and average rates of P51.79, P52.69 and P50.40 in 2019, 2018 and 2017, respectively, for income and expense accounts.

- Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.
- There are no unusual items as to nature and amount affecting assets, liabilities, equity, net income or cash flows, except those stated in Management's Discussion and Analysis of Financial Position and Financial Performance.
- There were no material changes in estimates of amounts reported in prior interim periods of the current year or changes in estimates of amounts reported in prior financial years.
- There were no known trends, demands, commitments, events or uncertainties that will have a material impact on the Group's liquidity.
- There were no known trends, events or uncertainties that have had or that are reasonably expected to have a favorable or unfavorable impact on net sales or revenues or income from continuing operation.
- There were no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation and there were no changes in contingent liabilities and contingent assets since the last annual reporting date, except for "Contingencies" of Section VII above that remain outstanding as at December 31, 2019.
- The effects of seasonality or cyclicity on the interim operations of the Group's businesses are not material.

- There were no material off-statements of financial position transactions, arrangements, obligations (including contingent obligations), and other relationship of the Group with unconsolidated entities or other persons created during the reporting period, except for the outstanding derivative transactions entered by the Group as at and for the period December 31, 2019.

ANNEX “C-1”

**MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL POSITION AND FINANCIAL
PERFORMANCE**

(As of March 31, 2020)



SAN MIGUEL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS **OF FINANCIAL POSITION AND FINANCIAL PERFORMANCE**

INTRODUCTION

The following discussion should be read in conjunction with the attached unaudited consolidated financial statements of San Miguel Corporation ("SMC" or "Parent Company") and its subsidiaries (collectively referred to as the "Group") as at and for the period ended March 31, 2020 (with comparative figures as at December 31, 2019 and for the period ended March 31, 2019). All necessary adjustments to present fairly the consolidated financial position, financial performance and cash flows of the Group as at March 31, 2020, and for all the other periods presented, have been made. Certain information and footnote disclosure normally included in the audited consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS) have been omitted.

I. 2020 SIGNIFICANT TRANSACTIONS

MERGER OF SAN MIGUEL YAMAMURA PACKAGING CORPORATION (SMYPC) AND SAN MIGUEL YAMAMURA ASIA CORPORATION (SMYAC)

On February 24, 2020, the Philippine Securities and Exchange Commission (SEC) approved the merger and issued the Certificate of Filing of the Articles and Plan of Merger. The Plan of Merger and Articles of Merger were executed by and between SMYPC and SMYAC on October 23 and December 20, 2019, respectively. By virtue of the said merger, the entire assets and liabilities of SMYAC were transferred to and absorbed by SMYPC. The merger was effective on March 1, 2020.

As at May 28, 2020, SMYPC is still in the process of completing the requirements for the application with the Bureau of Internal Revenue for a tax-free exchange certification/ruling on the merger.

AVAILMENT OF LONG-TERM DEBT TO FINANCE INVESTMENT / CAPITAL EXPENDITURE

- Parent Company

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

- Masinloc Power Partners Co. Ltd. (MPPCL)

On March 31, 2020, MPPCL drew US\$43 million from the US\$525 million Omnibus Expansion Facility Agreement dated December 1, 2015 to finance the construction of the additional 335 megawatts (Unit 3 of Masinloc Power Plant) coal-fired plant within MPPCL.

existing facilities. The loan is divided into fixed interest tranche and floating interest tranche with maturities up to December 2030.

- **Atlantic Aurum Investments Philippines Corporation (AAIPC)**

On March 16, 2020, AAIPC availed the amount of P2,000 million from the P41,200 million Corporate Notes Facility Agreement dated December 9, 2019 with various local banks. Proceeds of the loan were mainly used for the construction of North Luzon Expressway - South Luzon Expressway Link (Skyway Stage 3) Project. The loan is payable in 39 quarterly installments up to December 16, 2029 and subject to fixed interest rate.

ISSUANCE OF BONDS AND REDEMPTION OF PREFERRED SHARES

Issuance of P15,000 Million Fixed-Rate Peso-Denominated Bonds and Redemption of Perpetual Series “2” Preferred Shares by San Miguel Food and Beverage, Inc. (SMFB)

On February 21, 2020, the SEC issued to SMFB the Permit to Sell P15,000 million fixed-rate bonds, consisting of five-year Series A Bonds due in 2025 and seven-year Series B Bonds due in 2027.

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

The Series A Bonds and Series B Bonds have fixed interest rate equivalent to 5.050% per annum and 5.250% per annum, respectively.

The proceeds were used to redeem the outstanding perpetual series “2” preferred shares on March 12, 2020 and payment of transaction-related fees, costs and expenses.

ISSUANCE OF SENIOR PERPETUAL CAPITAL SECURITIES (SPCS)

Issuance of SPCS by SMC Global Power Holdings Corp. (SMC Global)

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

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

PAYMENT OF OTHER MATURING OBLIGATIONS

During the first quarter of 2020, the Group paid P3,584 million of maturing obligations funded by cash generated from operations.

Petron Corporation (Petron), Infrastructure, Energy and other businesses paid a total of P1,411 million, P1,386 million, P586 million and P201 million, respectively, of their maturing long-term debt.

II. FINANCIAL PERFORMANCE

2020 vs. 2019

Consolidated revenues for the first quarter of 2020 ended at P214,066 million from P250,924 million of the same period in 2019 while consolidated operating income was at P11,728 million from P31,106 million. As expected, the impact on consolidated operating income was significant due to the volumes lost in March, the inventory loss incurred by Petron, the increased alcohol tax which took effect January 2020 and recurring fixed costs of the Group which continued during the pandemic especially costs relating to all employees and direct third party providers whose salaries and allowances were paid in full to ensure their financial well-being and that of their families while they stay safe at home.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) remained healthy at P26,972 million lower than last year's P41,038 million even with the EBITDA of the Food Division under San Miguel Food and Beverage growing more than double compared to the same period last year.

Lower cost of sales by 9% to P181,429 million resulted primarily from the: (a) decrease in sales volume and lower prices of raw materials and other costs of Petron and San Miguel Food and Beverage, and (b) Energy business' lower energy fees due to lower net generation of the Sual, Ilijan and San Roque Power Plants coupled with lower average natural gas prices for the Ilijan Power Plant, lower average cost of coal prices for Sual and Masinloc Power Plants as coal indices continue to decline, and lower average cost of spot purchases.

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

The decrease in equity in net earnings (losses) was mainly due to the share in net losses of Angat Hydropower Corporation (Angat Hydro) in 2020 versus net income in 2019, offset by share in net income of Manila North Harbour Port, Inc. in 2020.

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

Other income in 2020 consists mainly of: (a) Petron's gain on derivatives resulting from currency and commodity hedging and (b) Energy business' income from liquidated damages from a third party contractor which compensates the Group for any lost margins from the delay in the completion and start of commercial operations of Unit 3 of the Masinloc Power Plant; partly offset by SMYPC Manila Plastic Plant's inventory fire loss from the incident in Pandacan, Manila.

The lower income tax expense was primarily due to: (a) Petron's tax benefit from loss before tax in 2020 versus income before tax in 2019 and (b) lower taxable income of San Miguel Brewery Inc. (SMB) and Ginebra San Miguel Inc. (GSMI); partly offset by the (c) higher provision for income tax recognized by the Food division.

Consolidated net income amounted to P1,093 million, significantly lower than last year.

Excluding the effect of foreign exchange translations and nonrecurring losses, recurring net income was P2,226 million in 2020 compared to the 2019 recurring net income of P12,689 million.

Share of non-controlling interests (NCI) on the Group's net income decreased in 2020 mainly due to net loss of Petron in 2020 versus net income in 2019 and lower net income of SMB.

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

1. FOOD AND BEVERAGE

SMFB's consolidated revenue for the first three months amounted to P69,018 million, 9% lower than the same period in 2019 which was mainly brought about by the slowdown in the Beer and Spirits divisions sales during the Enhanced Community Quarantine (ECQ) period, heightened by the liquor ban implemented by some local government units (LGUs) in Metro Manila and key cities in Luzon. This was partly offset by higher sales from the Food division, particularly from its Prepared and Packaged Food segment.

Coupled with the increase in excise taxes on Beer and Spirits divisions at the beginning of the year, consolidated operating income declined by 20% to P8,643 million. Consolidated net income, likewise, dropped by 21% to P5,826 million.

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

SMB posted consolidated revenues of P28,404 million, 18% lower versus last year, largely on the back of lower volumes at 58.3 million cases for the first quarter.

Operating income and net income both declined by 44% versus last year to P5,383 million and P3,770 million, respectively.

Domestic Operations

Domestic operations posted revenues of P25,752 million, 18% lower versus last year. Beer volumes were up during the first two months this year but the ECQ impacted on sales which forced closure of all on-premise outlets, limited transport activities and banning of selling of liquor products by LGUs in Metro Manila and key cities in Luzon. This resulted to volumes dropping by 24% to 53.2 million cases for the first quarter.

International Operations

Similarly, SMB's international operations managed countries were not spared by the Coronavirus Disease 2019 (COVID-19) pandemic with governments implementing their respective containment measures resulting to decline in consumption and shutdown of some production operations.

b. Spirits Division

GSMI had a good start in 2020 up until February recording double digit volume growth from the same period last year. The ECQ and liquor bans in March, however, affected sales volume in the first quarter ending at 8.9 million cases, 14% less than last year.

The strong performance in the first two months helped cushion the decline in sales volume in March resulting in first quarter revenues of P7,453 million and operating income of P686 million, 10% and 30% lower than last year, respectively.

Net income amounted to P474 million, 23% lower versus the same period last year.

c. Food Division

San Miguel Foods generated consolidated revenues of P33,161 million, 2% higher than the same period last year, driven by the strong performance of its refrigerated meats, grocery products, dairy and spreads segments.

We saw a significant spike in sales in most of our food products as consumers stocked up on essential supplies leading up to and during the ECQ period. In particular, sales of the Prepared and Packaged Food segment posted double digit growth as consumers purchased essential items in the processed meats and dairy and cheese segments.

The Protein segment, composed of poultry and fresh meats, saw revenues grow by 3% compared to the same period last year brought about by improvement in average selling prices of chicken year-on-year as the poultry industry recovered from the widespread glut. The growth was partly offset by the decline in requirements as the number of retail outlets was reduced and most food service outlets were closed during the ECQ period.

The Animal Nutrition and Health segment revenues declined by 14% primarily due to the impact of the African Swine Fever outbreak and slowdown in demand for broiler feeds.

The Prepared and Packaged segment recorded the highest revenue growth at 16% mainly driven by strong demand from our refrigerated and canned meat products, as well as for butter, margarine and cheese, and coffee products.

The Flour segment revenues posted a 2% growth despite the decline in sales during the ECQ period with a number of our institutional customers, which include bakeshops, fast food, restaurant chains, and dealers, had to either stop or limit their operations.

The Food division ended the quarter with P2,585 million in operating income, more than 8 times higher than the same period last year, with the recovery of poultry prices and more stable raw material costs.

As a result, net income amounted to P1,636 million, significantly higher than last year.

2. PACKAGING

The Packaging business' performance for the 1st quarter also reflected the effect of the ECQ. Sales revenues amounted to P8,496 million, 4% lower than 2019. Decline was mainly due to reduced orders from the Food and Beverage sectors while the health and pharmaceutical customers brought in steady volumes.

Operating income amounted to P570 million, 31% lower than 2019.

3. ENERGY

SMC Global's consolidated revenues for the first three months amounted to P28,298 million, 18% lower versus last year with off-take volumes at 6,600 gigawatt hours (gwh) also declining by 3% compared to the same period last year. This was primarily due to the deferral of the commencement to supply Manila Electric Company (Meralco) with the 290 MW mid-merit power supply agreement which was only issued the provisional approval of the Energy Regulatory Commission last March 16 and the deferral of the 260 MW extended contract with Masinloc which remains pending to-date. Moreover, the new Meralco baseload power supply

agreements that took effect on December 26, 2019 have lower contract rates compared to the power supply contracts which expired on December 25, 2019.

Operating income and net income amounted to P7,823 million and P3,221 million, 21% and 10% lower than same period last year, respectively.

4. FUEL AND OIL

Petron continues to be faced with challenges during the 1st quarter. The ECQ restricted mobility in and out of the country curtailing economic activities affecting fuel demand.

Global oil prices began to plunge in March 2020 as the price war among top oil producing countries was worsened by the demand drop caused by the COVID-19 pandemic. The price of benchmark crude Dubai dropped by 66% to \$23 per barrel by end of March 2020 from \$67 per barrel end of December 2019, which resulted in successive rollbacks in pump prices.

As a result, Petron's consolidated revenues amounted to P104,623 million, down by 16% versus 2019 mainly on account of the decline in average selling price of fuel and lower volumes from both the Philippines and Malaysia ending at 24.7 million barrels, down 6%, from 26.3 million barrels recorded in the previous year.

Petron incurred an operating loss of P4,410 million, compared to 2019's operating income of P4,865 million and net loss of P4,877 million compared to the net income of P1,303 million the previous year, due to significant inventory losses resulting from the collapse of crude oil price brought by demand contraction in both the local and international markets.

5. INFRASTRUCTURE

The Infrastructure business' operating toll roads for the first quarter recorded a 15% volume decline as the ECQ restricted travel movements throughout Luzon where our toll roads are located. The company also chose to provide free toll fees to all frontliners passing through the operating toll roads. Thus, consolidated revenues of P4,661 million was down 27% and operating income stood at P1,772 million.

2019 vs. 2018

The Group's consolidated sales revenue for the first quarter of 2019 amounted to P250,924 million, 7% higher than 2018, mainly driven by the higher volume and favorable selling prices from most of the major businesses.

Higher cost of sales by 9% to P199,795 million resulted primarily from the volume growth and increase in costs and prices of raw materials of the Energy business, the Food division and domestic operations of SMB under San Miguel Food and Beverage.

Selling and administrative expenses increased mainly due to higher depreciation and amortization, advertising and promotions, taxes and licenses, contracted services and distribution costs.

The Group's consolidated operating income amounted to P31,106 million, 5% lower than 2018, mainly due to Petron, which continue to be affected by the prevailing movements in world crude oil prices eroding refining margins, and the Food division, which has also been affected by a sharp decline in poultry prices and rising raw material costs.

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

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

The increase in equity in net earnings primarily represents the share of SMC Global on the net income of Angat Hydro in 2019 compared to share in net loss in 2018.

The gain on sale of property and equipment in 2019 and 2018 pertains mainly to the sale of service stations by Petron Malaysia on government's compulsory acquisition for the construction of LRT / MRT project.

The decrease in other charges was primarily due to the appreciation of the Philippine Peso in March 2019 compared to the depreciation of the Philippine Peso in March 2018, resulting to a foreign exchange gain in 2019 compared to a foreign exchange loss in 2018. This was partly offset by hedging loss on currency and commodity in 2019, compared to hedging gain on currency and hedging loss on commodity in 2018.

The higher income tax expense was primarily due to the Parent Company's recognition of deferred income tax expense for the unrealized foreign exchange gain in 2019 compared to deferred income tax benefit for the unrealized foreign exchange loss in 2018, mainly from the revaluation of long-term.

Consolidated net income amounted to P12,825 million in 2019.

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

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

1. FOOD AND BEVERAGE

SMFB posted consolidated revenues amounting to P75,655 million for the first quarter of 2019, 14% higher than P66,087 million reported in the same period in 2018. Volumes and revenues remained strong across Beer, Spirits and Food divisions. Consolidated operating income of P10,810 million in 2019, however, ended slightly lower than 2018 on account of the sharp decline in chicken selling prices and continuous rising cost of raw materials that affected the Food division.

Net income grew 1% to P7,363 million from 2018.

a. Beer and NAB Division

SMB reinforced its continuous strong volumes and revenue growth during the first quarter of 2019. Volumes reached 76.4 million cases, 18% higher than 2018, while revenues also grew 17% at P34,832 million.

Domestic Operations

Domestic volumes grew 19% compared to 2018 mainly driven by strong consumption across the country with Red Horse and San Miguel Pale Pilsen sustaining their position as SMB's top selling brands. This has been backed by consistent and engaging consumption-generating initiatives and defense programs boosting further the equity strength and market leadership of the SMB brands.

International Operations

SMB's international operations, on the other hand, posted volume and revenue growth during the first three months. Exports, Hong Kong, Indonesia and Vietnam led volume growths, which were partly offset by lower volumes in North China and Thailand.

Consequently, SMB's consolidated operating income rose to P9,556 million, 15% higher than 2018, mainly driven by strong volumes offsetting the effect of higher operating costs and increase in excise tax effective January 1, 2019.

Net income grew to P6,747 million, up 19% from 2018.

b. Spirits Division

GSMI sustained its strong growth momentum in the first quarter of 2019 with sales volume reaching 10.4 million cases, 24% higher than 2018's level. This is the result of continuous sales efforts, complimented by GSMI's on-going nationwide "*Pilipino Ako, Ginebra Ako*" thematic campaign. Vino Kulafu also helped boost growth through its "*Lakas sa Magandang Bukas*" advertising campaigns and on-ground activations in the Visayas and Mindanao regions.

This resulted in revenues of P8,265 million, 28% higher than the same period in 2018. Operating income and net income posted significant growth of 122% and 141% at P986 million and P616 million from 2018, respectively.

c. Food Division

San Miguel Foods' consolidated revenues rose to P32,558 million, 9% higher than 2018. All businesses registered revenue growth brought about by higher sales volume and better selling prices.

Revenues from the Prepared and Packaged Food segment, expanded by 16% mainly from its core products - Tender Juicy, Pure Foods Corned Beef, Nuggets and Luncheon Meat, and Magnolia breadfill and spreads.

The Animal Nutrition and Health segment revenues grew 8% due to strong performance of high margin products such as B-Meg Integra, hog feeds premium line and veterinary medicines.

The Protein segment revenue also grew by 6%, backed by higher chicken sales from its stable-priced channels, despite the significant industry-wide drop in chicken selling prices.

Coupled with rising cost of raw materials and increased selling and administrative expenses, San Miguel Foods' operating income ended at P284 million, lower than same period in 2018.

Net income, likewise, ended lower at P11 million.

2. PACKAGING

The Packaging business' sales revenues during the first three months reached P8,840 million, 3% higher versus 2018. Growth continues to be propelled by the solid performance from the Glass, Metal, Plastics, Flexibles and Paper operations.

Operating income amounted to P828 million, 4% higher than 2018.

3. ENERGY

SMC Global posted consolidated off-take volume of 6,826 gwh during the first quarter, 42% higher than 2018, brought about by higher operating hours from the Ilijan and Sual Power Plants, the full quarter contribution from Unit 2 and Unit 3 of the Malita and Limay Power Plants and the full quarter contribution of the operations of Masinloc Power Plant.

With higher off-take volumes, offset slightly by lower average realization price by 1%, consolidated revenues rose by 41% to P34,676 million from P24,661 million in 2018. This in turn brought operating income to reach P9,841 million, 23% higher than 2018.

Net income amounted to P3,579 million, more than double of 2018's level.

4. FUEL AND OIL

Petron posted consolidated revenues of P124,558 million during the first quarter, 4% lower than the P129,112 million in 2018. This was mainly due to the 5% decline in volume from the Philippine operations following the second year increase in excise tax at the beginning of this year.

Consolidated volumes, however, ended 1% lower at 26.3 million barrels compared to the same period in 2018 brought about by higher volumes contribution from Petron Malaysia and increases in liquefied petroleum gas and polypropylene volumes.

Consolidated operating income and net income settled at P4,865 million and P1,303 million, 45% and 77% decline from 2018, respectively.

Efforts to manage prevailing risk and strengthen further its presence in key areas were implemented to mitigate its impact. It, likewise, remains focused on completing major expansion projects that will further re-inforce its market leadership.

Petron will soon commission its new Lube Oil Blending Plant at the Manila Harbor which will have twice the capacity of its current Pandacan Plant, that will clearly improve its Lube business. It is also nearing completion of its polypropylene plant expansion which will provide overall better margins.

Petron also continued its service stations expansion as it opened 40 new stations in the first quarter in the Philippine market and the Malaysian operations has now over 650 stations, bringing Petron's combined total count to over 3,000.

5. INFRASTRUCTURE

The Infrastructure business reported revenues of P6,359 million, an 8% increase from 2018, as vehicular volume from all operating tollroads continue to grow. Operating income reached P3,130 million, 1% higher than 2018.

III. FINANCIAL POSITION

2020 vs. 2019

Consolidated total assets as at March 31, 2020 amounted to about P1,909,702 million, P91,968 million or 5% higher than December 31, 2019. The increase was primarily due to the higher balance of cash and cash equivalents from the net proceeds of the availment of US\$1,950 million corporate notes by the Parent Company.

The decrease in inventories by P17,945 million was attributable mainly to Petron Philippines and Petron Malaysia's lower prices of crude and finished products, partly offset by the increase in volume of crude by Petron Philippines and finished products of Petron Malaysia.

The increase in prepaid expenses and other current assets by P3,942 million was primarily due to: (a) Petron's higher derivative assets, prepaid insurance from unamortized portion of renewed policies, input tax on importation of materials, unused creditable withholding taxes and prepaid taxes, and (b) San Miguel Insurance Company, Ltd.'s recognition of loss reserves recoverable from reinsurers amounting to US\$15 million related to losses due to various calamities, and (c) the Energy business' higher restricted cash balances.

The decrease in accounts payable and accrued expenses by P27,962 million was mainly due to lower liabilities for crude and petroleum products due to drop in prices and fewer outstanding shipments as at end of first quarter 2020 versus end of December 2019 and lower outstanding liabilities to contractors and vendors for services purchased by Petron.

The increase in income and other taxes payable by P2,976 million was mainly due to higher excise tax payable of Petron Philippines and sales duty tax payable of Petron Malaysia.

The increase in dividends payable by P245 million primarily represents the dividends declared by Petron on March 10, 2020 to its non-controlling shareholders payable on April 8, 2020.

The increase in total long-term debt, net of debt issue costs, by P118,867 million was mainly due to the: (a) Parent Company's availment of US\$1,950 million corporate notes and (b) SMFB's issuance of P15,000 million fixed-rate Peso-denominated bonds. The increase was offset by payment of maturing obligations of Petron, Infrastructure and Energy businesses, and foreign exchange translation adjustments on the US Dollar-denominated loans.

The decrease in total lease liabilities by P6,600 million was primarily due to the payments made to Power Sector Assets and Liabilities Management Corporation by the entities under Independent Power Producer Administration (IPPA) Agreements, offset by interest expense and foreign exchange loss by the Energy business.

The decrease in equity reserves by P2,920 million was mainly due to the translation adjustment on the net assets of foreign subsidiaries of Petron and SMB.

The increase in NCI by P11,691 million pertains mainly to: (a) SMC Global's issuance of US\$600 million SPCS on January 21, 2020, offset by (b) SMFB's redemption of preferred shares on March 12, 2020, (c) share of NCI on the Group's net earnings net of dividend for the period, and (d) foreign exchange translation adjustments.

2019 vs. 2018

Consolidated total assets as at March 31, 2019 amounted to about P1,722,721 million, P46,079 million higher than December 31, 2018. The increase was primarily due to the recognition of right-of-use assets with the adoption of PFRS 16, *Leases*, and the consolidation of Mariveles Power Generation Corporation (MPGC) by SMC Global.

The decrease in prepaid expenses and other current assets by P10,717 million was primarily due to the decrease in Citra Central Expressway Corp.'s restricted cash balance and decrease in Petron's input tax and goods and services tax as a result of collection of input tax claim from the government and also utilization of input tax for the period.

Property, plant and equipment decreased by P162,551 million primarily due to the reclassification of the Group's power plants under IPPA to right-of-use assets account as a result of the adoption of PFRS 16.

The balance of right-of-use assets of P179,322 million mainly represents the amount of the Group's power plants under IPPA reclassified from property, plant and equipment and other various operating lease agreements as a result of the adoption of PFRS 16.

The increase in investment property by P14,616 million is mainly due to the set-up of right-of-use assets of Petron for its rented properties being sub-leased to external parties.

The increase in other noncurrent assets by P7,596 million was mainly due to the consolidation of the advances of MPGC to suppliers and contractors for the construction of its Mariveles Power Plant. On January 25, 2019, SMC Global increased its percentage of ownership in MPGC from 49% to 73.58 % through capital infusion.

The increase in loans payable by P11,166 million was mainly due to the net availment of short-term Peso loans by the Parent Company for general corporate purposes.

The increase in accounts payable and accrued expenses by P10,653 million was mainly due to the higher liabilities for crude and petroleum products on account of higher prices.

The increase in total lease liabilities by P16,286 million pertains to the recognition of lease liabilities for right-of-use assets due to the adoption of PFRS 16, set-up of IPPA's interest expense, net of Energy business' payment for the period.

The increase in income and other taxes payable by P3,994 million was mainly due to the first quarter income taxes payable of SMB and Energy business, and higher value-added tax payable of Energy business.

The increase in dividends payable by P217 million primarily represents the dividends declared by Petron on March 12, 2019 to its non-controlling shareholders payable on April 11, 2019.

Equity

The increase in equity is due to:

<i>(In millions)</i>	March 31	
	2020	2019
Net addition to non-controlling interests and others	P15,063	P959
Net income during the period	1,093	12,825
Other comprehensive income (loss)	(3,992)	812
Cash dividends and distributions	(7,306)	(7,529)
	P4,858	P7,067

IV. SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

<i>(In millions)</i>	March 31	
	2020	2019
Net cash flows provided by (used in) operating activities	(P1,907)	P34,800
Net cash flows used in investing activities	(21,723)	(22,557)
Net cash flows provided by (used in) financing activities	122,341	(3,279)

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

Net cash flows used in investing activities included the following:

<i>(In millions)</i>	March 31	
	2020	2019
Additions to property, plant and equipment	(P16,330)	(P12,815)
Increase in other noncurrent assets and others	(7,796)	(12,636)
Additions to investments and advances	(286)	(329)
Proceeds from sale of property and equipment	133	267
Dividends received	535	537
Interest received	2,021	2,428
Acquisition of subsidiaries, net of cash and cash equivalents acquired	-	(9)

Net cash flows provided by (used in) financing activities included the following:

<i>(In millions)</i>	March 31	
	2020	2019
Proceeds (payment) from long-term debt - net	P120,711	(P2,032)
Net proceeds from issuance of senior perpetual capital securities of a subsidiary	30,170	-
Proceeds from short-term loans - net	10	11,010
Payment of lease liabilities	(6,349)	(4,949)
Payment of cash dividends and distributions	(7,063)	(7,313)
Redemption of preferred shares of a subsidiary	(15,000)	-

The effect of exchange rate changes on cash and cash equivalents amounted to (P852 million) and P1,125 million for the periods ended March 31, 2020 and 2019, respectively.

V. OTHER MATTERS

Notice of Withdrawal of PCC Notification for the Acquisition of Holcim Philippines, Inc.

On April 23, 2020, the Philippine Competition Commission (PCC) issued Commission Resolution No. 010-2020 which resolved to suspend all proceedings pending before it during the ECQ period in accordance with Administrative Order No. 30, issued by the President of the Philippines on April 21, 2020. On May 10, 2020, the Parent Company disclosed to the Philippine Stock Exchange, that the agreement to acquire the 85.73% shares of Holcim Philippines, Inc. (HPI), between and among First Stronghold Cement Industries, Inc. (FSCII), the Parent Company and Holderfin B.V. dated May 10, 2019, has lapsed in accordance with its terms. The completion of the acquisition required the approval of the PCC which was not able to be achieved. In view of the foregoing, the proposed acquisition by FSCII of the 85.73% of HPI shall no longer proceed. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders which was made by the Parent Company on September 23, 2019. On May 13, 2020, Top Frontier Investment Holdings, Inc., the ultimate parent company, filed a notice of withdrawal of its notification to the PCC covering the aforementioned proposed acquisition.

VI. KEY PERFORMANCE INDICATORS

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

	March 2020	December 2019
<u>Liquidity:</u>		
Current Ratio	1.70	1.46
Quick Ratio	1.22	0.96
<u>Solvency:</u>		
Debt to Equity Ratio	2.30	2.16
Asset to Equity Ratio	3.30	3.16

	March 2020	December 2019
<u>Profitability:</u>		
Return on Average Equity Attributable to Equity Holders of the Parent Company	4.36%	6.36%
Interest Rate Coverage Ratio	1.30	2.38
Return on Assets	1.98%	2.78%
	<u>Period Ended March 31</u>	
	2020	2019
<u>Operating Efficiency:</u>		
Volume Growth	(9%)	8%
Revenue Growth	(15%)	7%
Operating Margin	5%	12%

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

KPI	Formula
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Current Assets} - \text{Inventory} - \text{Prepayments}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$\frac{\text{Total Liabilities (Current + Noncurrent)}}{\text{Equity}}$
Asset to Equity Ratio	$\frac{\text{Total Assets (Current + Noncurrent)}}{\text{Equity}}$
Return on Average Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent Company}^*}{\text{Average Equity Attributable to Equity Holders of the Parent Company}}$
Interest Rate Coverage Ratio	$\frac{\text{Earnings Before Interests and Taxes}}{\text{Interest Expense and Other Financing Charges}}$
Return on Assets	$\frac{\text{Net Income}^*}{\text{Average Total Assets}}$
Volume Growth	$\left(\frac{\text{Sum of all Businesses' Revenue at Prior Period Prices}}{\text{Prior Period Net Sales}} \right) - 1$
Revenue Growth	$\left(\frac{\text{Current Period Net Sales}}{\text{Prior Period Net Sales}} \right) - 1$
Operating Margin	$\frac{\text{Income from Operating Activities}}{\text{Net Sales}}$

* Annualized for quarterly reporting.

ANNEX “D”

**DRAFT MINUTES OF THE REGULAR MEETING OF
STOCKHOLDERS OF SAN MIGUEL CORPORATION
HELD ON JUNE 11, 2019**

**MINUTES OF THE REGULAR MEETING OF STOCKHOLDERS
OF**

SAN MIGUEL CORPORATION

Held at Isla Ballroom, Edsa Shangri-la Manila,
1 Garden Way, Ortigas Centre, Mandaluyong City
held on June 11, 2019

SHAREHOLDERS:

Top Frontier Investment Holdings, Inc.
Privado Holdings, Inc.
Metroplex Holdings Corporation
Lucena Holdings Corporation
Gingoo Holdings Corporation
Ginebra San Miguel Inc. Retirement Plan
San Miguel Corporation Retirement Plan
San Miguel Foods, Inc. Retirement Plan
Petron Corporation Employees' Retirement Plan
Other shareholders

DIRECTORS:

Eduardo M. Cojuangco, Jr.
Ramon S. Ang
Leo S. Alvez
Aurora T. Calderon
Joselito D. Campos, Jr.
Reynaldo G. David
Menardo R. Jiménez
Estelito P. Mendoza
Alexander J. Poblador
Reynato S. Puno
Thomas A. Tan
Margarito B. Teves
Iñigo Zobel
Ramon F. Villavicencio

Apology:

Jose C. De Venecia, Jr.

In attendance:

Virgilio S. Jacinto, Corporate Secretary
Ferdinand K. Constantino, Chief Finance Officer
Joseph N. Pineda, Deputy Chief Finance Officer
Mary Rose S. Tan, Assistant Corporate Secretary
Josephine Cabrera, AVP-Manager, Financial Planning
& Analysis Department
Wilfredo C. Palad, R.G. Manabat & Co.
Noel L. Baladiang, R.G. Manabat & Co.
Reynabeth D. De Guzman, Head – Investor Relations

I. CALL TO ORDER

The meeting was called to order at 2:00 p.m. Mr. Eduardo M. Cojuangco, Jr., Chairman and Chief Executive Officer of the Company, presided over the meeting. The singing of the National Anthem was followed by an invocation led by Ms. Reynabeth D. De Guzman, Head of Investor Relations.

II. CERTIFICATION OF NOTICE AND QUORUM

The Corporate Secretary, Atty. Virgilio S. Jacinto, certified that notices were duly sent to the stockholders and there are present in the meeting, in person or by proxy, 84.83% of the outstanding common shares, and 22.41% of the outstanding preferred shares of the Company, respectively.

The Corporate Secretary stated that for the record, proxies for 63% of the outstanding common and preferred shares of the Company have been issued by the stockholders in favor of the Chairman authorizing him to vote for the election and approval of the members of the Board of Directors and the approval of all corporate actions in the agenda.

III. APPROVAL OF THE MINUTES OF THE REGULAR STOCKHOLDERS' MEETING HELD ON JUNE 14, 2018

Upon motion duly made and seconded, the stockholders approved and ratified the minutes of the Regular Annual Meeting of Stockholders held on June 14, 2018.

IV. CHAIRMAN'S MESSAGE AND PRESENTATION OF ANNUAL REPORT

The Chief Finance Officer, Mr. Ferdinand K. Constantino upon the request of the Chairman, rendered the report to the stockholders, set forth below.

We are half-way through 2019, yet our achievements of the previous year and what we've learned over that period continue to be relevant to us today.

2018 has been a meaningful year for San Miguel Corporation as we delivered our strongest revenue performance to date: P1.02 trillion in consolidated revenues, 24% higher than the previous year and achieving our goal of reaching the trillion-peso level revenues—a full two years ahead of our target.

It is all the more meaningful given that we achieved this target during a year when record inflation, volatile world oil prices and currency movements, put limits on the growth of some of our major businesses.

Operating income rose 5% to P117 billion, which was tempered by higher raw material costs for our Food Business and Petron's Inventory losses amounting to P10 billion during the last quarter of 2018.

Consolidated recurring net income reached P55.2 billion, a slight improvement from 2017.

We encourage you to read through our annual report for a more detailed look into our 2018 performance.

Moving on to our performance for the first quarter this year:

- We generated consolidated revenues of P250.9 billion, up 7%, mainly driven by higher volumes and favorable selling prices from most of our major businesses.
- Operating income amounted to P31.1 billion and net income at P12.8 billion.

While the Food Group and Petron faced many of the same challenges of the previous year, we're also seeing clear signs of recovery.

Volumes across our businesses have hit record highs as demand for our products continue to grow. This tells us that our ongoing capacity expansion programs are particularly well-timed.

Our diversified portfolio allows us to better manage and adapt to external challenges, with our different businesses actively managing and finding ways to improve operations.

Fellow stockholders, our way forward is clear. With the resources, experience, and expertise we've gained, we're in a much better position to realize our vision of a better future, both for our business, and our country.

Our efforts to drive economic growth and create more jobs outside existing urban centers is off to a great start.

The construction of San Miguel Brewery's new brewery in Tagoloan, Misamis Oriental is in full swing. We are also converting the Sta. Rosa bottling facility to a full-scale brewery. These are the first two of several more breweries we plan to build in strategic regions nationwide.

San Miguel Pure Foods completed last year the construction of a new hotdog plant in Cavite, and two feed mill facilities in Bataan and Bulacan. More facilities are being built that will come on-stream in the coming years.

We also reached significant milestones for major projects that will further enable growth and improve the lives of many of our countrymen:

SMC Global Power began commercial operations for units 2 and 3 of the Malita and Limay greenfield power plants. With our acquisition of the Masinloc Power Plant early last year, total capacity as of end-2018 has reached 4,197 megawatts.

Our network expansion program for Petron Corporation continues. We are now at 2,400 stations in the Philippines and 640 in Malaysia. Domestically, we added 370,000 barrels of new storage capacity and are set to complete our polypropylene plant.

Under SMC Infrastructure, work continues on our ongoing projects: Skyway Stage 3, MRT-7, and the last section of the Tarlac-Pangasinan-La Union Expressway (TPLEX).

The Bulacan Bulk Water facility is now providing potable water to six

municipalities in Bulacan. Once fully operational, we will be serving 24 separate water districts.

We also broke ground recently for the South Luzon Expressway (SLEX) -TR4 project, which will extend SLEX up to Lucena City.

Finally, our proposal to build a new international gateway—the New Manila International Airport in Bulacan is now in the Swiss challenge phase. This project will be our largest contribution to Philippine economic growth, and we look forward to beginning construction, hopefully within this year.

As you've probably come to realize, our work in San Miguel is never really done. Perhaps some might say that we would be perfectly content just concentrating on a couple of projects.

If this were our attitude in the past, we would not be where we are today.

What we've proven is that a compelling vision, combined with a solid strategy, sound financial management, and dedicated employees who believe in working for a greater purpose, can create impactful and lasting change.

It's in this light that we've continued to evolve and grow our approach to addressing major issues that impact our business and our people's lives today.

Our business concerns have always intersected with our social and environmental commitments, giving way to clearer sustainability goals.

Two years ago, we launched our first major sustainability initiative: To cut water use across the San Miguel Group by 50% by 2025. Last year, we exceeded our 2020 goal of 20% reduction a full two years ahead of schedule. We have cut our use of water by over 25%.

We have since launched other sustainability projects. Among those we've recently announced:

- Our initiative to start development of the country's first roads partly made of recycled plastics;
- Our P1 billion project to clean up the Tullahan River;
- Our project to build community centers in the poorest neighborhoods of Metro Manila to help the urban poor become more resilient.

These projects reflect how we hope to use our influence and scale to address real problems.

We thank you, our stakeholders, for your continued trust and faith in everything that we are trying to achieve:

Robust economic growth, more jobs, better services, and more prosperous, fulfilling lives for a greater number of Filipinos:
For us, that is what tomorrow looks like.

Maraming salamat po, at mabuhay po tayong lahat.

The Chairman then declared an open forum and, together with the President, Chief Finance Officer, and the Corporate Secretary, entertained questions from the floor.

The following are the questions asked during the open forum:

Two stockholders namely, Andy Prudente of Pasig City and Cecile Montano of Parañaque City, both submitted questions to ask when will the swiss challenge to the Bulakan Airport project be conducted and when will groundbreaking be held. The President and Chief Operating Officer, Mr. Ramon S. Ang replied that the swiss challenge process is scheduled to be completed by the end of July 2019, afterwards, the Company will negotiate with the Department of Transportation (DOTr) on the concession agreement. Hopefully, the groundbreaking will be held by the end of this year.

Another stockholder, Lourdes Ramos of Cainta, Rizal, asked when the Stage 3 project will be completed so that the public can benefit from it. Mr. Ang replied that the estimated completion of the Stage 3 project from Osmena to Balintawak will be this year and an additional three months for the extension from Balintawak to the NLEX toll plaza. When this project is completed, the travel time between SLEX to NLEX will be 15 minutes and will reduce the traffic in EDSA.

A stockholder, Augusto Mendoza of Sta. Mesa, Manila City, asked about the status of the MRT7 project. According to Mr. Ang, the MRT7 project construction is in full swing save for some right of way issues. As agreed with the DOTr, the first 20 kilometers of MRT7 is targeted to begin operations by end of 2021 and will be in full operation by the end of the following year in 2022.

A stockholder, Myra Villanueva of Makati City, asked about the power projects of the Company. Mr. Ang replied that the construction of the 600 MW circulating fluidized bed, multi fuel power plant in Bataan is underway. This powerplant has lower emissions and can use different kinds of fuel such as rice husks and industrial waste. He added that the Malita power plant is now fully operational. Add to that, the Company plans to add approximately 1,000 MW capacity from renewable energy such as solar, wind and hydro in the next 5 years.

A stockholder, Esperanza S. Lopez of Antipolo City, requested that the Company extend 50% discount on its products to senior citizens during the stockholder meetings. Mr. Ang replied that all stockholders are welcome to attend the meetings where food will be served. Ms. Lopez of Antipolo City also asked if they could be given more opportunities to invest in the other businesses of the Company such as properties, Bank of Commerce and other by listing these companies in the Philippine Stock Exchange. Mr. Ang replied that currently there are already a number of companies of San Miguel Corporation which are listed, namely: San Miguel Corporation, San Miguel Food and Beverage Company, Inc., Ginebra San Miguel and Petron Corporation which already gives ample opportunity for the public to invest in San Miguel companies.

Stockholders named An Ko and Esperanza S. Lopez of Antipolo City, respectively, gave their comment that the Company should continue to use Edsa Shangri-la Hotel as venue for its stockholders meeting because it is "beautiful and easy to access."

A stockholder, Dante Alignay of Cainta, Rizal, inquired whether there are plans to increase the cash dividends paid by the Company to its common stockholders. Mr. Ang replied that currently, the Company already pays a cash

dividend of Php 4 billion every year to its common stockholders. He added that if the revenue of the Company further improves, it will consider the increase in the cash dividends paid by the Company.

A stockholder, Jose Arriola of Ermita of Manila City, asked whether Top Frontier is a major stockholder of San Miguel Corporation. Mr. Ang replied that Top Frontier owns over 60% of the total outstanding common stock of the Company.

Stockholder An Ko further inquired why is there no calendar that is given away as a souvenir to the stockholders. Mr. Ang, in jest, inquired to the crowd who do they want to put in the calendar: June Mar Fajardo or Miss Universe?

Mr. An Ko further inquired whether Mr. Ang has plans to run for public office to which Mr. Ang, again in jest, replied that he plans to run as barangay captain in the province when he retires.

A stockholder greeted Mr. Eduardo Cojuangco a happy birthday. Mr. Cojuangco thanked the crowd for the greeting.

A stockholder, Mr. Santanoa, asked about the planned airport rail from Edsa to Bulakan, Bulacan specifically to confirm whether it will be connected to MRT7 in North Edsa. Mr. Ang confirmed that indeed it is the plan to build an airport express from the EDSA common station to the Bulakan airport. In addition, he said that the airport express will be a loop and will also cater to the residents in San Jose del Monte and Fairview to travel to EDSA.

The same stockholder inquired what is the participation of the Incheon airport in the Bulakan airport project in light of the news reports that a memorandum of agreement was signed between San Miguel and Incheon airport. He asked whether Incheon will have equity interest in the airport project. Mr. Ang replied that the MOA that was signed with Incheon is for consultancy in the design of the project and not to have equity investment in the project. Mr. Ang added that we hope to learn from them in building and designing the airport.

A stockholder, Robert Go of Manila City, greeted everyone a happy fathers' day. He further inquired about Petron if it could improve its brake fluid to avoid accidents. Mr. Ang replied that the current formulation of brake fluids had already improved with a higher boiling point. Mr. Ang further added that there are many factors that contribute to vehicular accidents in general and the efficiency of the brake system in particular. He recommends the regular maintenance of the vehicle and the checking of the brake pads as well.

The same stockholder further inquired about the acquisition of Holcim and the review of the Philippine Competition Commission of the transaction. Mr. Ang replied that the Philippine cement industry is owned and controlled by foreigners and that there are very few local players which are Filipino owned. He noted that Holcim is owned by Swiss and that he is of the view that it will be good for the country if Holcim is owned by Filipinos.

A stockholder moved to close the open forum and approve and ratify the annual report as presented. Another stockholder seconded the motion and the Chairman declared the motion as carried.

V. RATIFICATION OF ALL ACTS OF THE BOARD OF DIRECTORS AND CORPORATE OFFICERS

The Chairman proceeded to the next item on the agenda which is the ratification of all acts of the Board of Directors and corporate officers since the date of the last stockholders' meeting.

The Corporate Secretary presented the matters which are to be ratified, and approved as follows:

- a) the secondary sale by way of public offering of 887,000,000 common shares of San Miguel Food and Beverage, Inc. held by the Company, with an over-allotment option of 133,050,000 common shares;
- b) declaration of cash dividends for the common shares, the Series "1", and the Series "2" Preferred Shares;
- c) appointment of corporate officers; and
- d) approval of signing authorities and limits;
- e) the favorable endorsements made by the standing committees, as follows:
 - (i) by the Audit and Risk Oversight Committee: the filing of the SEC Form 17-A (Annual Report); SEC Form 17-Q (Quarterly Reports) and Integrated Annual Corporate Governance Report; and
 - (ii) by the Corporate Governance Committee: the qualifications of the nominee directors and the directors' fees for 2018 amounting to Php72.38 million.
- f) availment of loan facility agreements and issuance of corporate notes of the Corporation.

A stockholder moved to approve, confirm and ratify all acts, resolutions and proceedings of the Board of Directors and corporate officers since the June 14, 2018 regular meeting of stockholders until June 11, 2019, as set forth in the minutes of the meetings of the Board of Directors.

Upon motion duly made and seconded, the following resolution was approved:

Resolution No. 2019-06-11-01

"RESOLVED, that all acts, resolutions and proceedings of the Board of Directors and corporate officers of the Company since the Annual Meeting of the Stockholders on June 14, 2018 until today June 11, 2019, as set forth in the minutes of the meetings of the Board of Directors be approved, confirmed and ratified."

VI. APPOINTMENT OF EXTERNAL AUDITORS

The Chairman of the Audit Committee, Mr. Margarito B. Teves reported after the evaluation of the Audit Committee recommended the appointment of the accounting firm of R.G. Manabat & Co., CPAs as the external auditors of the Company for fiscal year 2019.

Upon motion duly made and seconded, the following resolution was approved:

Resolution No. 2019-06-11-02

“RESOLVED, as it is hereby resolved, that the accounting firm of R.G. Manabat & Co., CPAs are appointed as the external auditors of the Company for fiscal year 2019.”

VII. ELECTION OF THE BOARD OF DIRECTORS

The Chairman asked the Corporate Secretary to inform the assembly of the nominations received by the Board. The Corporate Secretary read the names of the following qualified nominees:

Eduardo M. Cojuangco, Jr.	Director
Ramon S. Ang	Director
Leo S. Alvez	Director
Aurora T. Calderon	Director
Joselito D. Campos, Jr.	Director
Jose C. de Venecia, Jr.	Director
Menardo R. Jimenez	Director
Estelito P. Mendoza	Director
Alexander J. Poblador	Director
Thomas A. Tan	Director
Ramon F. Villavicencio	Director
Iñigo Zobel	Director
Reynaldo G. David	Independent Director
Reynato S. Puno	Independent Director
Margarito B. Teves	Independent Director

The Chairman stated that the Proxy Statement circulated to the stockholders identifies the nominees for election as independent directors of the Board of Directors. They are Directors Reynato S. Puno, Margarito B. Teves and Reynaldo G. David. This is in accordance with the requirements of the Securities and Exchange Commission.

Upon motion of a stockholder, the following resolution was passed:

Resolution No. 2019-06-11-03

“RESOLVED, as it is hereby resolved, that considering there are only fifteen (15) nominees and there are only fifteen (15) seats in the Board to be filled up, the balloting for the election of directors will be dispensed with and all fifteen (15) nominees be considered unanimously elected as Directors of the Company for the ensuing year, until their successors are elected and qualified, and that the votes of the stockholders present and represented by proxies be distributed and recorded accordingly.”

With the resolution, the Chairman declared all the nominees elected. The Chairman, on behalf of management, welcomed the newly-elected Board of Directors and thanked the stockholders for their vote of confidence.

VIII. ADJOURNMENT

The Chairman asked if there are any other matters that any stockholder wished to bring up and there being none, entertained a motion for adjournment.

A stockholder moved to adjourn the meeting, duly seconded by another stockholder. The Chairman adjourned the meeting and thanked all stockholders for attending.

A copy of the voting results is attached as Annex "A".

ATTESTED BY:

EDUARDO M. COJUANGCO, JR.
Chairman

VIRGILIO S. JACINTO
Corporate Secretary

ANNEX “A”

SAN MIGUEL CORPORATION
Annual Stockholders’ Meeting 2019

I. Election of the Board of Directors

No.	Nominee	VOTES
1	Eduardo M. Cojuangco, Jr.	2,017,082,986
2	Ramon S. Ang	1,982,732,333
3	Leo S. Alvez	1,982,496,493
4	Aurora T. Calderon	1,981,474,458
5	Joselito D. Campos, Jr.	1,982,567,583
6	Jose C. De Venecia, Jr.	1,981,003,878
7	Menardo R. Jimenez	1,981,108,768
8	Estelito P. Mendoza	1,982,496,493
9	Alexander J. Poblador	1,982,567,583
10	Thomas A. Tan	1,982,567,583
11	Ramon F. Villavicencio	1,982,887,903
12	Inigo Zobel	1,982,887,903
13	Reynaldo G. David	2,020,971,092
14	Reynato S. Puno	2,019,842,547
15	Margarito B. Teves	2,020,971,092

Total votes registered	30,332,971,230
Total votes counted for election of board nominees	29,883,658,695
Total uncast votes for election of board nominees	449,312,535

	Resolution	FOR		AGAINST		ABSTAIN		TOTAL SHARES	
II	Approval of the Minutes of the 2018 Annual Stockholders’ Meeting	2,022,198,082	84.827%	0	0.00%	0	0.00%	2,022,198,082	84.827%
III	Approval of the Annual Report of the Company for the year ended December 31, 2018	2,020,040,492	84.737%	0	0.00%	2,157,590	0.091%	2,022,198,082	84.827%
IV	Ratification of all the acts of the Board of Directors and Officers since the 2018 Annual Stockholders’ Meeting	2,020,490,492	84.756%	0	0.000%	1,707,590	0.072%	2,022,198,082	84.827%
V	Appointment of R.G. Manabat & Company CPAs as external auditors of the Company	2,021,744,192	84.808%	453,890	0.019%	0	0.00%	2,022,198,082	84.827%

	No. of Shares	% to Total Outstanding Shares
OUTSTANDING COMMON SHARES	2,383,896,588	
OUTSTANDING PREFERRED SHARES	1,472,061,267	
TOTAL OUTSTANDING SHARES AS OF RECORD DATE	3,855,957,855	100%

	No. of Shares	% to Total Outstanding Shares
TOTAL SHARES IN ATTENDANCE		
Attending proxy assignees	2,022,198,082	
Attending stockholders	336,679,975	
	2,358,878,057	61.175%

	No. of Shares	% to Total Outstanding Shares
TOTAL SHARES VOTING		
Attending proxy assignees	2,022,198,082	
Attending stockholders	336,679,975	
	2,358,878,057	61.175%

TOTAL SHARES UNCAST	336,679,975	
---------------------	-------------	--