


SAN MIGUEL CORPORATION

# Every day, a time to build

2021 ANNUAL REPORT




*Mass transport, as depicted in this concept image for the MRT-7 project, is one of several solutions to decongest our cities and decentralize growth.*

# Contents


2 Message to Stockholders

8 Every day, a time to build

23 Management Report

29 Financial Position

30 Milestones

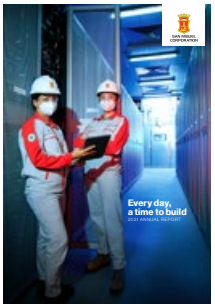
32 Board of Directors

33 Key Executives

34 Corporate Governance

43 Financial Statements


SAN MIGUEL CORPORATION




Nation building for San Miguel Corporation has always been more than just about building roads and other infrastucture. It is about helping create the best economic conditions for the Philippines, to enable the upliftment of the lives of more Filipinos. In the post-pandemic era, every San Miguel project—such as the 31 battery storage facilities we are building to ensure stable and reliable power nationwide —will come with built-in, multi-generational benefits to communities, the environment, and the economy.

# Good for all

**Fellow stockholders,**

Two years into the pandemic, it appears the Philippines has turned a corner.

We say this without lesser regard for the risks still posed by a virus that has left more than 50,000 dead in our country alone, but with confidence in the collective efforts of the public and private sectors, the medical community, and citizens ready to venture out into the world again.

High national vaccination rates and new and effective treatments for COVID-19 present significant breakthroughs for managing the pandemic.
So much so that we can now train our energies on the other crises faced by Filipinos every day: huge cost increases for many basic goods and services, lack of ready access to healthcare and quality education, and ever greater levels of economic inequality.

Our direct response to the pandemic--mitigating its impacts and boosting our country's economic rebound--have supported the most urgent needs of disadvantaged populations, and at the same time further strengthened our company.

As such, despite three major lockdowns and quarantine restrictions nationwide, our recovery has been solid, with profitability at San Miguel Foods and Ginebra San Miguel Inc. returning to pre-pandemic levels over the last year. Petron Corporation posted a turnaround in profit, while San Miguel Brewery Inc. also turned in a strong financial performance.

Overall, we registered consolidated revenues of P941.2 billion, 30% better than in 2020. Operating income of 117.2 billion was 64% higher than in 2020, and modestly better than in 2019.

The easing of quarantine restrictions for Metro Manila to alert level 2, and the relative rapidity with which we rolled out our *Ligtas Lahat* vaccination program for our 70,000-strong nationwide workforce, gave us momentum going into the last quarter of 2021. Unfortunately, Typhoon Odette dealt a huge blow to the local economies of Visayas and Mindanao, clipping some of our gains.

We ended the year with net income amounting to P48.2 billion, 120% better than the previous year, and at par with pre-pandemic profit levels. EBITDA was 28% higher at P160.9 billion.

Throughout the last two years, we found ourselves making the best "good for all" decisions we possibly could, particularly in instances when plans and strategies could only take us so far, given the many extraordinary challenges we faced.

Do we continue investing in prospectively growth-building projects, despite our businesses struggling in the middle of a crisis? Do we provide complementary responses to the national government, to deliver health care and support vulnerable groups, even when we could just choose to protect our bottom line? Do we take on more risk or even delay returns, to help solve some of our country's problems now, when we could afford to hedge our bets for when things get better?

Our answer to these questions, as evidenced by all our actions, has been an unequivocal "yes". For us, "good for all" is about prioritizing the welfare of many over our own immediate interests, because the choices we make today will help build a more inclusive and resilient future for our country—where ultimately, our company thrives.




**Ramon S. Ang**
President & CEO

The pandemic has indeed transformed how we see our role in the larger economy and society. Today, we know that we need to adopt a broader outlook and new ways of doing business, in order to meet the challenges of the post-pandemic Philippines we're helping to build.

Among the pressing changes that have taken shape both in local and global business in the last two years is the call for stronger action and accountability on climate issues. This was reflected at the 2021 Conference of Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC), where member nations vowed to achieve net-zero emissions over the next 25 to 30 years.

Governments and financial institutions are placing stronger emphasis on sustainability, demanding stricter adherence to global standards. The Philippines itself has taken decisive action to mitigate the impacts of climate change, such as imposing a moratorium on new coal projects, and committing to slash greenhouse gas emissions by 75% by 2030 for agriculture, wastes, industry, transport, and energy.

The Duterte administration has also emphasized the urgency of improving the country's supply of modern, reliable energy services and energy security, overall.

This is an area where we stand to make the biggest contribution to our country's climate impact mitigation efforts. Our energy strategy aims to ensure that the current power supply is improved, even as we minimize dependence on coal, and help bring about the country's transition to cleaner fuels and renewable power.

In early 2021, we announced the discontinuation of our future coal projects, with the exception of those already committed to, and required by the government, as part of the Philippines' long-term energy sufficiency plan.

To manage the transition from coal, we are fast-tracking investments in natural gas, the cleaner alternative for baseload power. Natural gas is also a bridge fuel: it improves the reliability and affordability of electricity, even as we pursue greater renewable capacities.

An important step to making renewable energy more widely available throughout the country is battery energy storage, which will abrogate the basic problem of renewables–intermittence, or the erratic nature of sunlight, wind, or water supply as a power source.

Thus far, 21 of the 31 Battery Energy Storage System (BESS) facilities we are building throughout the Philippines are now substantially complete. We are proud to be the first in the country to use this technology, and to have the highest battery capacity to date. By the end of 2023, we expect to complete all 31 BESS facilities, which will improve power quality and distribution, especially in regions currently off-grid.

Throughout our 131-year history, we in San Miguel have always been proud of the fact that we have led, if not pioneered, best practices in the circular economy, environmental protection, pollution mitigation, water sustainability, community development, as well as corporate governance.

However, with our businesses so much a part of the fabric of everyday Philippine life, and with the new and emerging risks our country faces, more is expected of us when it comes to tackling economic, environmental, social, and governance issues.

Our resolve to continue to grow despite the continuing impacts of climate change, means we can't remain set in our ways, or stay mired in old realities when faced with global challenges. Given this, sustainability for us will be front and center, playing an even bigger role in the growth of our businesses.

Actions to ensure our businesses will continue to thrive amid present and future internal and external threats will be prioritized. Programs to increase our resilience against climate impacts—such as severe weather, widespread flooding, or drought—will be put in place. Major steps to configure our operations

Projects that serve as solutions to critical problems which sadly many Filipinos have learned to live with—pollution, congestion, limited access to water, insufficient and unreliable access to energy, food insecurity, and uneven development between the regions—will be chosen over undertakings that serve no higher social or environmental purpose.



to be more responsible and responsive to the needs not just of consumers, but also of vulnerable communities and the environment, will be taken.

Projects that serve as solutions to critical problems which sadly many Filipinos have learned to live with—pollution, congestion, limited access to water, insufficient and unreliable access to energy, food insecurity, and uneven development between the regions—will be chosen over undertakings that serve no higher social or environmental purpose.

At the beginning of 2022, we engaged the services of an international consultant, PricewaterhouseCoopers (PwC), and initiated a Group-wide effort to review each of our businesses and draw up a phased roadmap toward achieving clear and substantial sustainability goals in this decade and beyond.

While sustainability is often seen through the lens of environmental protection, our efforts toward greater sustainability are as much a business imperative as they are outcomes of our sense of social responsibility.

Our recycling and reuse of materials, such as glass and by-products for instance, is essential to protecting and enhancing our margins, even as they minimize the waste we generate and our impact on the environment. Our water sustainability initiative, *Water for All*, already in its fifth year, is meant to help preserve valuable water resources which are essential to all our businesses.

Our cleanup initiatives for the Tullahan River System, the Pasig River, and soon, river systems in Bulacan province, are meant to help mitigate flooding in Metro Manila and even neighboring provinces, which disrupts business operations, transportation, economic growth, and people's lives.

Similarly, our COVID-19 response efforts—particularly our nationwide *Ligtas Lahat* vaccination program, which, by the middle of January 2022 fully vaccinated over 97% of our nationwide workforce—ensured the safe and continuous operations of our businesses. Our hiring and deployment of over 100 medical professionals and healthcare workers to different public vaccination sites helped widen protection against the coronavirus, paving the way for the safe reopening of our economy.

When seen from the perspective of risk management, sustainability becomes an even more integral part of our business, and an imperative for our future.

Earlier, we spoke of the climate crisis. Many Filipinos cannot even begin to worry about its severe impacts because they are busy staving off the daily crises in their lives.

We know it will take far more to solve complex, generational problems. But in areas where we can, we have begun implementing social protection programs to alleviate these conditions. Among them: viable housing relocation for people in our project sites and various disadvantaged sectors; skills and livelihood training and scholarship programs, extensive support to micro-enterprises, and our growing network of *Better World* community centers that enable us to partner


SAN MIGUEL
CORPORATION

with non-profits to address societal problems at the ground level.

We believe there is no better business sustainability strategy for us than to continue enabling the growth of our people and our economy.

Regional development is a major leg of our post-pandemic strategy. Through our Aerocity project and planned agro-industrial clusters in the Luzon and Mindanao regions, we will create new economic growth centers that will boost our agricultural sector and local industries, providing jobs and livelihood for millions of Filipinos.

Our ongoing and upcoming infrastructure projects, including the New Manila International Airport (NMIA), Mass Rail Transit-7 (MRT-7), South Luzon Expressway Toll Roads 4 and 5 (SLEX TR4, TR5), the Tarlac-Pangasinan-La Union (TPLEX) Extension, are designed to disperse and decentralize growth from Metro Manila outwards to the regions.

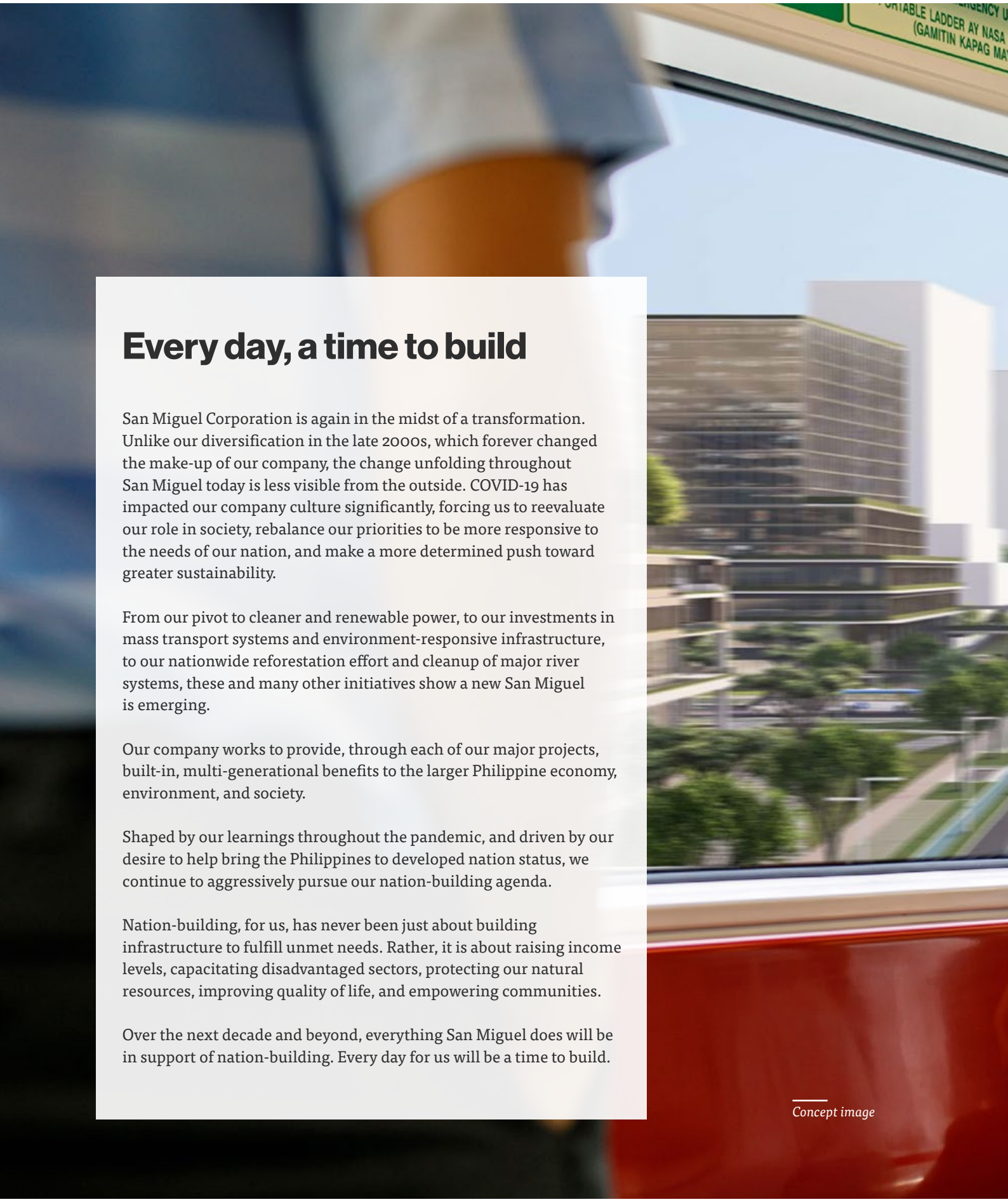
Our cement business, which completed the construction of its new facility in Davao, is geared towards supporting continued infrastructure development and economic growth in Mindanao.

Finally, the NMIA, our biggest project to date, will significantly boost job creation through increased tourism, trade, and investments. Currently, land development on this vital project is ongoing following an extensive environmental and social impact assessment, done in accordance with the highest international standards.

In many ways, our situation is much improved from 2020, yet our businesses continue to face major headwinds. Despite our country's exit from higher alert levels, the possible emergence of mutated variants of COVID-19 is an ever-present threat to economic and business recovery. The Russian invasion of Ukraine has thrown global commodity markets into turmoil and will continue to have ripple effects on economies all over the world, including the Philippines.

Amid this uncertainty, our purpose remains as clear as ever: and that is to do everything we can to help build a better Philippines, by prioritizing what will be good for all: nation-building, investments in job creation, pursuing greater sustainability, and uplifting the lives of as many Filipinos as we can.

"Good for all" has brought us to where we are today—with many significant projects completed, our workforce protected, and our businesses poised for a strong and sustained recovery in the post-pandemic world. It will carry us through the toughest challenges, and bring us closer to the very best version of San Miguel we can hope for.




# Every day, a time to build

San Miguel Corporation is again in the midst of a transformation. Unlike our diversification in the late 2000s, which forever changed the make-up of our company, the change unfolding throughout San Miguel today is less visible from the outside. COVID-19 has impacted our company culture significantly, forcing us to reevaluate our role in society, rebalance our priorities to be more responsive to the needs of our nation, and make a more determined push toward greater sustainability.

From our pivot to cleaner and renewable power, to our investments in mass transport systems and environment-responsive infrastructure, to our nationwide reforestation effort and cleanup of major river systems, these and many other initiatives show a new San Miguel is emerging.

Our company works to provide, through each of our major projects, built-in, multi-generational benefits to the larger Philippine economy, environment, and society.

Shaped by our learnings throughout the pandemic, and driven by our desire to help bring the Philippines to developed nation status, we continue to aggressively pursue our nation-building agenda.

Nation-building, for us, has never been just about building infrastructure to fulfill unmet needs. Rather, it is about raising income levels, capacitating disadvantaged sectors, protecting our natural resources, improving quality of life, and empowering communities.

Over the next decade and beyond, everything San Miguel does will be in support of nation-building. Every day for us will be a time to build.

*Concept image*




*Efficient, multiple solutions to transportation are part of our vision for future cities in the Philippines.*

# 1 Water Sustainability

Since 2016, we have been deliberately addressing water issues on multiple fronts. Internally, our *Water for All* flagship water sustainability program, which involves reducing our Group-wide use of scarce water by 50% by 2025, has progressed well. Through a combination of water conservation, recycling, and reuse; desalination, better water use monitoring, and rainwater harvesting, our total water savings from 2017 to 2021 has reached 27.4 billion liters, equivalent to the monthly consumption of over 914,000 households.



*To date, our efforts to clean up the Tullahan and Pasig Rivers have resulted to the extraction of over 1.4 million metric tons of silt and solid waste from the major tributaries—equivalent to the average daily waste of 2 million Metro Manila residents.*

*(next page) Desalination of seawater is among the processes used by Petron Corporation to minimize use of scarce water.*





Meanwhile, to provide access to affordable, potable water to some 12 water-challenged municipalities in Bulacan, we completed Phase 1 of our Bulacan Bulk Water Supply operations, and are now investing to expand its areas of coverage. We also proactively support reforestation efforts in order to protect critical watersheds.

Today, our water stewardship extends far beyond our own facilities and distribution markets. In June 2022, we marked two full years of our clean-up initiative for the 27-kilometer Tullahan-Tinajeros river system.

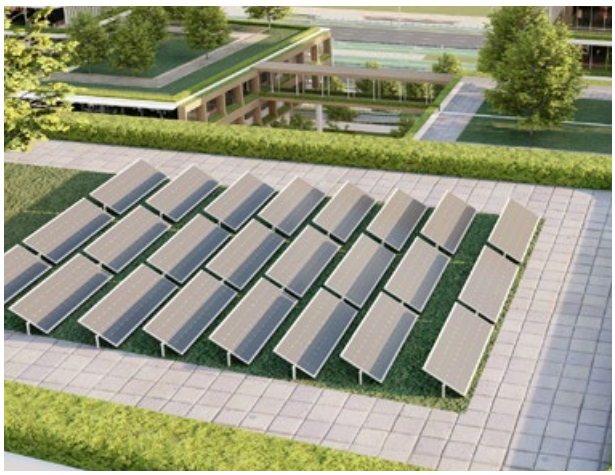
Buoyed by our wins and learnings from the cleanup of the Tullahan river, we also began in 2021 a more ambitious river rehabilitation project, the clean-up of the Pasig River. To date, we have removed over 1.4 million metric tons of silt and solid waste from both rivers.

Taking on the responsibility of cleaning up two of the world's top plastics-polluting rivers makes practical sense for us. Water sustainability, after all, is about ensuring future generations can still benefit from the same resources we have today. Also, by ridding our rivers of decades of accumulated waste, we can increase their carrying capacity and better mitigate flooding. With this, we minimize disruptions to our economy, which impact agriculture and food production, manufacturing and transportation, the mobility and productivity of people, the flow of investments, and the health and safety of Filipinos—all contributing factors to our business continuity.

Our growing awareness and experience in various water issues will be a significant part of our developments moving forward. Flood mitigation, water stewardship, water resources protection, and rehabilitation and enhancement of biodiversity, will all be part of our efforts to build a more water-secure future.




*In the future, we will ramp up capacities utilizing cleaner fuels and renewable energy. Our Battery Energy Storage System facilities—such as our 10-MW Masinloc facility (this page) will help solve the limitations to wider adoption of renewables—intermittence. Meanwhile, the company will also pursue opportunities in renewables such as solar, depicted in designs for our Aerocity project in Bulacan (next page top photo), and hydropower, similar to the San Roque Hydroelectric power plant in Pangasinan (next page bottom photo).*





# ❷ Transition to cleaner and renewable energy

Renewable energy is the future. However, for a developing country like the Philippines, lack of basic access to electricity and unstable and unreliable supply, particularly in provinces and remote islands, remain major priority issues. In fact, unreliable and insufficient power supply is often the reason why investments and ultimately, economic growth, are slow and constrained in many of our provinces.

Renewable energy is also challenging, given it's still very expensive and inherently unreliable for use as baseload power.

This, however, has not deterred us from adopting a transition strategy that has so far resulted to us discontinuing planned coal power projects, and increasing investments on natural gas technology—considered cleaner because of its significantly lower carbon dioxide, nitrous oxide, sulfur, and fine particle emissions. In addition, we are also eyeing to increase our renewable capacity where we can.

Our venture into Battery Energy Storage Systems (BESS)—which will see us complete 31 new BESS facilities nationwide with a combined capacity of 1,000 MW by the end of 2023—is designed to stabilize and balance the supply of power nationwide. It also opens the doors for wider adoption of battery technology as a means to solve the problem of intermittence associated with renewables.

To help provide for our country's current power demand, we continue to leverage our diversified portfolio that includes traditional and renewable fuel sources. To ensure baseload power, we use the most advanced and environment-friendly coal combustion technologies to significantly-minimize impacts to the environment. We also employ various carbon capture and carbon sequestration efforts, such as our nationwide reforestation initiative. Technology will also play a major role in our phased power transition toward a low carbon future.



two






*Concept designs for our Aerocity development, prepared by Palafox and Associates, show why it is touted to be the pace-setter of future sustainable urban developments in the Philippines. Crucial to its design is the integration of various modes of transportation and an abundance of open, green spaces for pedestrians.*





# Green city of the future ❸

Our New Manila International Airport (NMIA) project is not just the largest investment of any company in the Philippines to date: it also promises to be the most consequential. With four parallel runways, a modern terminal, an extensive network of interconnected expressway and mass rail infrastructure, and a comprehensive environmental and social development plan, the airport can deliver transformative benefits at national, regional, and local levels.

And yet, the airport itself is just one part of a bigger picture. Our future aerotropolis (airport + city) development, master-planned by top urban planning and green architecture firm Palafox and Associates, will complete our vision of a fully-connected green city of the future.

The project will be a showcase of the urban planning principles and practices that will define SMC in the post-pandemic age: From green design and green urbanism to climate resiliency, multi-modal mass transport and mobility, renewable energy use, to sustainable food production, and more.

With dedicated zones for agriculture and food production, education, health and wellness, commerce, logistics, finance, aeronautics, science and technology, tourism, entertainment, and recreation, this future-forward city will serve as the model for all green and sustainable city developments in the Philippines.




*Concept photo for MRT-7 project. Once complete, it will connect Quezon City to San Jose Del Monte, Bulacan and improve the daily commute of hundreds of thousands of Filipinos.*

*(Next page) By addressing gaps in our country's infrastructure and transport network, we are able to lessen time spent on the road, minimize economic losses due to traffic congestion, and mitigate pollution coming from hours of stand-still traffic.*

Mobility and accessibility are critical to keeping our economy moving, ensuring our cities are livable, and our people, thriving. Our vision for infrastructure in the Philippines is centered on unlocking our economy's true growth potential by decongesting and seamlessly connecting our cities, decentralizing growth by improving accessibility of our provinces, and designing efficient, multi-use, sustainable infrastructure.



## ❹ Mobility

Our New Manila International Airport leads the charge in enabling efficient mass transportation. Designed to be the country's largest international gateway, its four parallel runways will ensure air traffic congestion—as well as airport, runway, and road congestion—will be things of the past.

A modern airport will also be a major boost to our country's competitiveness as a tourist and investment destination, uplifting the lives of millions of Filipinos through direct and indirect jobs from the industries it will help develop and create.

Our existing and future expressway projects provide a platform for future innovations in mobility. At our aerocity development in Bulacan, roads will be purposely designed to feature a bus rapid transit (BRT) system, bicycle highways, landscaped pedestrians areas, covered walkways, and facilities that utilize solar power.

Our MRT-7 project, our first foray into mass transport systems, will do more than just make commutes faster, more efficient, and affordable for hundreds of thousands of Filipinos. Even before it is completed, the MRT-7 has already helped catalyze growth in San Jose del Monte, Bulacan, with major residential and commercial developments located along or near its alignment. Once fully operational, it will decongest Metro Manila traffic and bring further growth to Bulacan province. More importantly, it will enable many Filipino workers and employees to work in the city, while conveniently living in their home province.



four

*The expansion of our food and beverage businesses support regional growth. Through our operations, we are able to provide quality jobs, boost economic activity, and help more Filipinos build better futures for their families.*









# 5 Regional growth

With the nationwide reach of our operations and the wide distribution of our products and services across all provinces in the Philippines, regional growth is something we have always influenced. Throughout history, wherever a San Miguel facility is built, or a distribution route established, economic growth and development inevitably follow.

For our national development goals to succeed, our regions must be empowered. This is what we have been steadily working to achieve, starting with our efforts to bring basic electricity to the remotest provinces, and to stabilize and improve power supply throughout the regions through new power capacities, battery energy storage systems, and rural electrification.

Much of our ongoing and future infrastructure projects and the extensive operations of our fuel and oil business, are all geared towards making our provinces more accessible. This will help enable faster and easier transport of people and goods, and revitalize tourism and local industries, creating sustainable livelihood for many Filipinos.

With sufficient power and infrastructure, our planned investments in regional growth hubs will be game-changers for our provinces, providing quality jobs and boosting local economies.

But before any of these projects even begin construction, our holistic approach to social development and environmental protection has already made a big difference to our future host communities. A clear example is our sustainable housing development in Sariaya, Quezon where fishermen and farmer-beneficiaries have been given more than just disaster-resilient homes on land they formally own.

To better ensure a good future for their families, they are provided education and livelihood training opportunities. We have also empowered them by providing facilities that support their livelihoods—primarily, a fishermen's dock, and their own public market, which they operate and manage.

This model, which puts in place programs that will ensure long-term livelihood restoration and environmental protection in our project areas well before any actual work on the ground is done, makes our strategy of regional development all the more transformative.

# 6 Food security and sustainability




Agriculture is a major pillar of our economy, but it is also among the most overlooked and under-supported sectors. Without a strong and resilient agriculture sector, we cannot attain food security, much less self-sufficiency—both critical to economic stability and growth.

For many decades now, San Miguel has been a major partner of the agriculture industry, supporting our farmers through local sourcing of raw materials and contract growing programs. The pandemic however exposed how vulnerable many of our farmers are. With no means to access their traditional markets during the lockdown, many farmers had no recourse but to leave fruits, vegetables, and dairy to spoil, resulting in lost capital and income.

Our efforts then to help some of them: Increased direct, local sourcing from farmers' cooperatives, the putting up of market stalls at our Petron gas stations, and the opening of our *Better World* Diliman community market for surplus farm produce. These, along with our overall efforts to provide Filipinos affordable, quality, and nutritious food products to help mitigate food insecurity, inform our future directions in the food business.

Supporting our country's self-sufficiency in food will be one of our major thrusts. To achieve this, we plan to expand our poultry business, support farmers with research and technology, expand our contract growing programs, and buy inputs directly from farmer cooperatives. Our increased feed milling and raw materials storage capacities also go a long way towards boosting our agriculture sector.

And yet, raising capabilities and capacities is only one part of the equation. To bring about sustainable food security, we also need to ensure goods are affordable and within reach of consumers. Our responsiveness to the changing needs of customers, and our ability to come up with innovative products in different categories and price points, help ensure we are serving all segments of the market.

By far, our biggest step towards offering healthier options to consumers is our recent entry into the plant-based food segment.

Our robust supply chains and expanding network of community resellers that widen our distribution, along with our infrastructure business' new and upcoming projects aimed at making the transport of goods faster and more efficient, all bolster food accessibility.

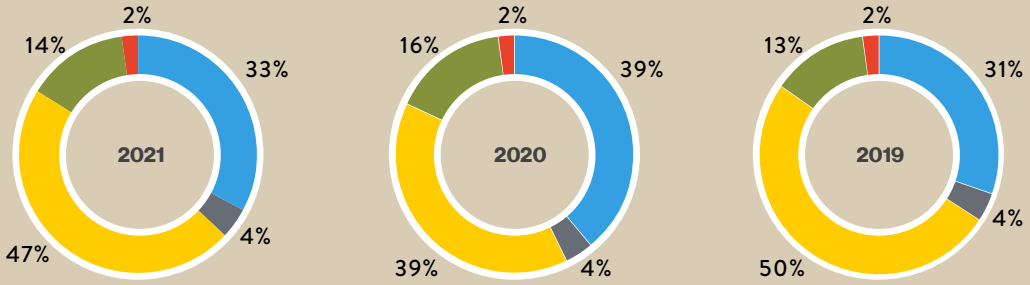
Bringing about food security also means providing consumers with food choices with sufficient nutrition and health benefits. Our Food business has introduced many innovations in the area of health and food safety. These include the lowering of the salt content of our processed meats products; zero hormones, growth promotants, and antibiotic residues in our chickens, healthier variants of our established brands, and the release of new seafood and ready-to-eat lines.



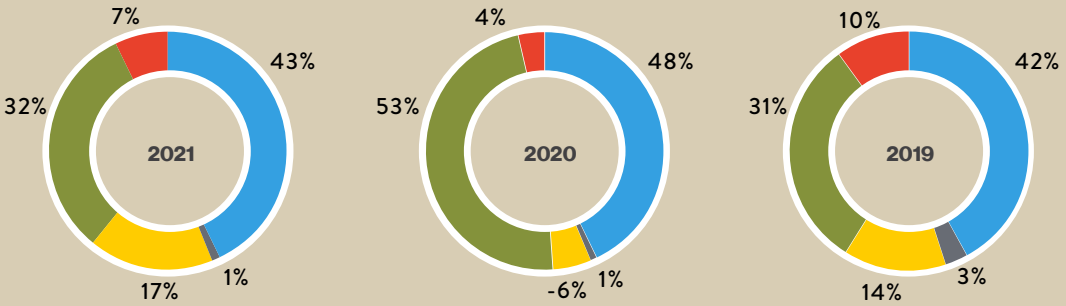
*During the pandemic, we opened Better World Diliman, a ready marketplace for excess farm produce bought from farmers at better-than-farmgate prices.*

FOOD & BEVERAGE
PACKAGING
FUEL & OIL
POWER
INFRASTRUCTURE

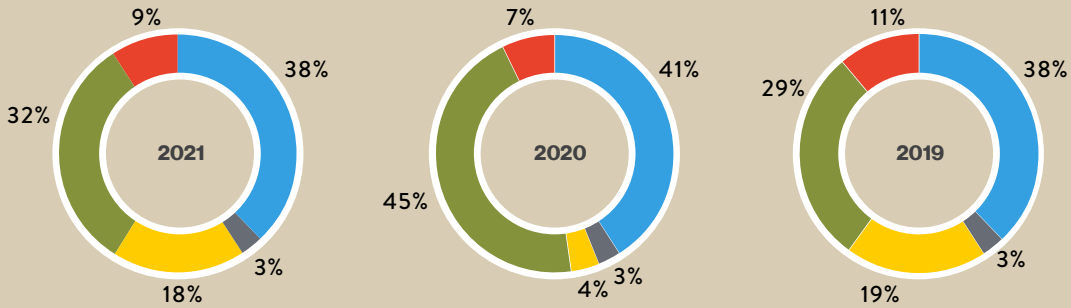
## CONTRIBUTION BY REVENUE




## CONTRIBUTION BY OPERATING INCOME




## CONTRIBUTION BY EBITDA



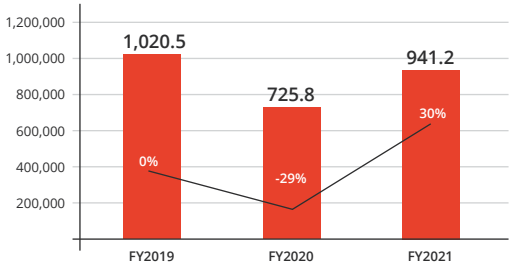
# Management Report

The year 2021 saw the beginnings of our economic recovery, following the shocks brought about by the COVID-19 pandemic in 2020. The economy began to gradually open up, even as mutated strains of COVID-19 continued to disrupt economic activity and dominate much of Philippine life. These, however, did not deter your company, San Miguel Corporation, from executing on its business recovery strategies, and laying the foundations of our future growth.

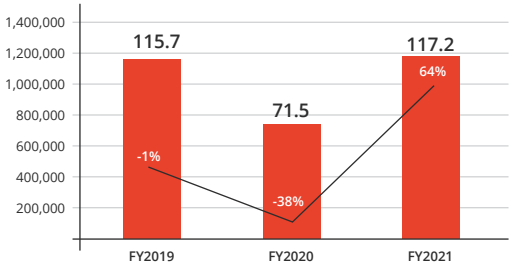
We sought to stabilize our businesses against the impacts of the crisis and the uneven progress of recovery in certain markets and industries. This was to ensure our businesses could better withstand further pressures such as the impacts of higher excise taxes imposed on our beverage business, at the beginning of the year.

We launched our "Ligtas Lahat" employee vaccination program in February, following an earlier commitment by Management to set aside P1 billion for the free vaccination of all in our direct and indirect workforce. In support of the government's nationwide vaccination program, we hired over 100 medical professionals and deployed them to various local government units throughout Metro Manila. By augmenting local government vaccination teams for nearly a year, we helped hasten the vaccination rollout, initially for vulnerable and priority sectors, and eventually for all segments of the population.

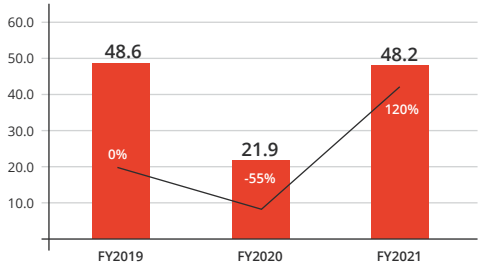
**REVENUE (₱ bn)**



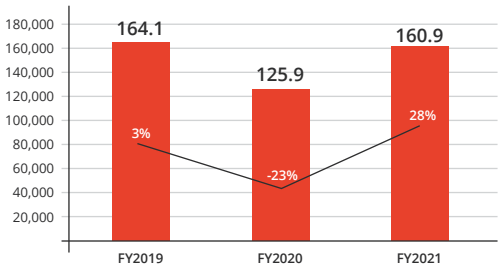

**OPERATING INCOME (₱ bn)**




**NET INCOME (₱ bn)**




**EBITDA (₱ bn)**



We sought to stabilize our businesses against the impacts of the crisis and the uneven progress of recovery in certain markets and industries, to ensure our businesses could better withstand further pressures.

Following government approval to administer vaccines to workers and employees, we set up our own dedicated vaccination sites in key cities all over the country to reach over 70,000 in our nationwide network. By January 2022, over 97% of our target population was already fully vaccinated. By December 2021, we had begun administering booster shots. From July 2020 until the present, we continue to test employees at all facilities and offices, both through our own RT-PCR testing laboratory, and through third-party providers, to help ensure the safety in the workplace and the continuous operation of our facilities.

We marked a number of significant business milestones throughout 2021. On January 14, SMC Infrastructure formally opened Skyway Stage 3, our 18-km elevated expressway that links the South Luzon Expressway (SLEX) and the North Luzon Expressway (NLEX). A critical component of Metro Manila's road infrastructure network, Skyway Stage 3 dramatically lessens travel time between Muntinlupa and Quezon City to just 30 minutes from three hours previously, and contributes greatly to decongesting traffic all over Metro Manila.

In April, we also opened the northbound section of the South Luzon Expressway (SLEX) Elevated Extension project – the four-kilometer elevated connection from SLEX near Susana Heights to Skyway in Sucat, Paranaque. This project, which includes the southbound section which was soft-opened before the year ended, addresses years of worsening traffic congestion at the SLEX owing to the limited capacity of the Alabang viaduct, and the exponential growth in population and in economic activity in the southern provinces. We formally inaugurated the full 19-lane km. SLEX Elevated Extension Project on February 15, 2022.

SMC Global Power also reached key milestones for its 1,000-MWh Battery Energy Storage System (BESS) project, which involves the construction of 31 BESS facilities at strategic sites throughout the Philippines. A total of 21 new BESS facilities, which will account for 690 MWh of capacity, are expected to be completed by the end of 2022. Four of these facilities, which have a combined 80 MWh of capacity, have already been completed, while three sites with 150 MWh combined capacity are ongoing testing and commissioning.

Meanwhile, the remaining 10 sites, which will account for 290 MWh, are set for completion in 2023. On top of these 31 new BESS facilities, SMCGP, last January 26, 2022, began commercial operations for its very first BESS project, a 20-MWh facility in Kabankalan, Negros. In all, these investments in BESS facilities are part of a broader strategy to stabilize supply throughout the grid, and help pave the way for the integration of renewable power in the future.

Starting September 2021, we also began to take delivery of rolling stock for our ongoing MRT-7 project, with a total of six train sets delivered by December, consisting of 18 rail cars manufactured by South Korea's Hyundai Rotem.

Our overall performance in 2021 yet again highlighted the advantages of our diversified business structure and operational strategies.

Despite the continuing challenges presented by the pandemic, business activity improved with the partial reopening of the economy. By the end of the year, we turned in a robust performance, with some of our businesses achieving full recovery, and even registering improvements over their pre-pandemic 2019 performance.

Consolidated revenues rose 30% to P941.2 billion, from P725.8 billion in the previous year, with San Miguel Food and Beverage Inc., SMC Global

Power Holding Corp., Petron Corporation, and SMC Infrastructure all delivering double-digit revenue growth. This was still 8% behind 2019 pre-pandemic levels, but is nevertheless a significant improvement coming from the 29% decline we experienced in 2020.

As a result of group-wide cost management efforts and the adoption of enhanced operational efficiencies, operating income grew 64% to P117.2 billion from the previous year. Notably, this surpassed our 2019 full year pre-pandemic operating income of P115.7 billion.

Consolidated net income reached P48.2 billion, up 120% from the P21.9 billion we reported in the previous year. More significantly, this is nearly at par with our pre-pandemic net income level. EBITDA reached P160.9 billion, a year-on-year improvement of 28% from P125.9 billion in 2020.

## FOOD AND BEVERAGE

San Miguel Food and Beverage, Inc. (SMFB) delivered sustained growth throughout 2021, posting consolidated revenues of P309.8 billion, an increase of 11% from the same period last year, as the Food, Beer, and Spirits divisions all turned in solid results.

SMFB's consolidated operating income improved 31% to P43.7 billion, while net income rose 40% to P31.4 billion, a remarkable achievement, given the implementation of community lockdowns and liquor bans in many areas throughout the year, combined with increasing raw material prices.

### Beer Division

San Miguel Brewery, Inc.'s (SMB) recovery continued, with consolidated volumes slightly improving to 204.4 million cases. To help mitigate pandemic restrictions, our domestic beer business conducted various programs to spur consumption and excite the market. Consolidated sales revenues amounted to P116.3 billion, 8% higher compared to the previous year, while consolidated operating income grew 10% to P26.9 billion, on account of continuing cost management initiatives. Net income rose 17% to P20.4 billion.

***Domestic***

In 2021, domestic beer volumes increased moderately, while volumes for our non-alcoholic beverages ended significantly higher. Overall, this represents a gradual recovery for SMB, coming from the large decline experienced in 2020. Various thematic campaigns, activations, and consumer promos contributed to bumping up demand and consumption, at the same time softening the effects of liquor bans and mobility restrictions. In the end, domestic revenues amounted to P105.1 billion, up 7% from the previous year, helped along by the full year impact of price increases implemented in March 2020 and October 2021. Operating income reached P25.2 billion, 8% better than the previous year.

Recovery was further reinforced by its nationwide marketing programs and thematic campaigns. San Miguel Pale Pilsen's "Beer Call Muna Tayo" and San Mig Light's "Imagine" campaigns boosted brand equity and at the same time promoting home consumption and "e-numan" online gatherings. Red Horse Beer's "Patak" and "Lakas" advertisements reinforced the brand's leadership and value-for-money proposition. Domestic operations also sustained visibility for Gold Eagle Beer, through distinctive out-of-home (OOH) installations and improved penetration in the Visayas region.

***International***

SMB's international operations likewise sustained its growth in 2021, posting an 8% volume increase and 11% revenue improvement versus the previous year. This was driven primarily by volume expansion from Exports and its Indonesia operations, which offset shortfalls in South China, Vietnam, Hong Kong, and Thailand, due to pandemic restrictions. With cost management programs, improved sales, and operational efficiencies, operating income also grew compared to 2020.

### Spirits Division

Ginebra San Miguel Inc. capped off another stellar year, with volumes reaching an all-time high of 41.9 million cases, up 8% from 2020, and 17% higher than 2019 pre-pandemic levels.

Much of the growth was attributed to its successful marketing campaigns, namely: "Bagong Tapang" for GSM, "Kusog Kulafu" for Vino Kulafu in the Visayas and Mindanao regions, and "Choose What's True" for GSM Blue. These were further supported by national and local consumer promos, aggressive market penetration activities for push brands, and continued expansion of distribution channels throughout the year.

Revenues reached P42.5 billion, up 17% from the P36.2 billion reported in 2020. Operating income rose 39% to P5.3 billion, while net income surged 52% to P4.2 billion—150% higher than 2019 pre-pandemic earnings.

## Foods Division

San Miguel Foods (SMF) posted consolidated revenues of P151.0 billion, 12% higher than in 2020 and 8% higher than in 2019.

Growth was driven mainly by the robust performance of the Protein, Animal Nutrition and Health, Value-Added Meats, and Flour segments, all of which registered double-digit growth, on the back of volume gains and favorable pricing.

These brought SMF's operating income to P11.5 billion, a hefty 122% increase from 2020, despite rising raw material costs. While this put a squeeze on margins, SMF was able to partially mitigate this through group-wide cost containment efforts, improvements in efficiency, and optimized utilization of company-owned production facilities.

As a result, net income surged to P7.6 billion, a three-fold increase from 2020 and more than double 2019 pre-pandemic figures.

### *Protein*

Revenues from the Protein segment, consisting of the Magnolia Chicken and Monterey Meats businesses, grew 14%, buoyed by improvements in poultry prices, as SMF was able to keep its inventory at optimal level even as industry supply was augmented by imported frozen chicken. The Protein segment's performance received a boost from its growing network of community sellers, and the gradual recovery of the lechon manok industry.

### *Feeds*

The Animal Nutrition and Health segment expanded revenues by 12%, as it sustained volume increases for free-range fowl, layer, duck, and aquatic feeds, on the back of successful conversion campaigns and intensive sales and market penetration activities targeting backyard and medium-scale farms. Meanwhile, as hog farms started to slowly repopulate with the waning of the African Swine Fever (AFS), sales of hog feeds slightly recovered in the last quarter. Likewise, demand for broiler feeds picked up, with improved availability of day-old chicks.

### *Prepared and Packaged*

Revenues from the Prepared and Packaged Food segment grew 6% from 2020, driven mainly by the growth of the Value-Added Meats segment, led by core flagship products Purefoods Tender Juicy, Chicken Nuggets, and Bacon. Newly launched ready-to-eat products such as meat-free product line *Veega, Purefoods Spaghetti Sauce*, and *Seafood Nuggets*, also delivered remarkable growth in 2021.

Meanwhile, Magnolia posted lower revenues compared to the previous year, as home-baking activities receded and foodservice recovery remained limited. Nonetheless, margarine, cheese, and *San Mig Coffee* Sugar-Free grew steadily while sales of newly launched retail packs of *Magnolia Salad Aids* showed great promise.

### *Flour*

The Flour segment maintained its growth momentum, with revenues ending 17% higher versus the year before. Growth in all geographical areas, led by Mindanao and the Greater Manila Area (GMA), was driven by strong volumes coming from an expanded distribution network and recovery in existing customers operations.

## PACKAGING

The San Miguel Packaging Group registered revenues of P33.7 billion in 2021, up 7% from the previous year. Volumes increases from food and beverage accounts improved the performance of the Glass, Plastics, Metal Crowns, Two-Piece Aluminum Cans, and Flexibles businesses. Australia and

Following government approval to administer vaccines to workers and employees, we set up our own dedicated vaccination sites in key cities all over the country to reach over 70,000 in our nationwide network. By January 2022, over 97% of our target population was fully vaccinated.

Malaysia operations also delivered better results, as quarantine restrictions eased. Operating income amounted to P1.2 billion, 21% higher than in 2020 on higher revenues, effective cash management, and maximization of cost containment measures.

## POWER

SMC Global Power Holdings Corp. (SMCGP) recorded off-take volumes of 27,221 Gwh in 2021, a 4% growth versus the previous year, as industrial activities started to pick up with relatively lighter Covid-19 quarantine restrictions compared to 2020. Correspondingly, with higher spot and average bilateral rates, consolidated revenues for the year rose 16% to 133.7 billion.

Operating income, on the other hand, declined by 14% to P31.9 billion, on account of a significant rise in average coal input costs and higher power purchases. This was the result of lack of peak capacity to serve the Group's improved bilateral requirements, with the continued deration of the Ilijan power plant due to gas supply restrictions, and extended outages at the Sual power plant.

Net income amounted to P16.0 billion, down by 15% from the previous year. Without the recorded liquidated damages from a third-party contractor arising from non-fulfillment of obligations under its procurement-related contracts in 2020, net income would have been higher by around 5%.

SMCGP remains steadfast in its commitment to diversify its portfolio towards high-growth and low-emission technologies. Its 1,000 MWh Battery Energy Storage System (BESS) project is reaching substantial completion and is set for full completion by end-2023. Additionally, we are also constructing our 1,313 MW liquified natural gas plant project, targeted for completion in 2024. In early 2021, we also cancelled our planned coal power projects with a capacity of around 1,500 MW, as part of our long-term shift to cleaner power.

## FUEL AND OIL

Petron Corporation posted a major recovery from the P11.4 billion net loss it registered in 2020, delivering a net income of P6.1 billion for 2021. Consolidated sales volume grew 5% to 82.2 million barrels, with the easing of pandemic restrictions and the re-start of economic activities, which improved overall demand.

Retail volumes in the domestic market increased 6% on the back of volume-generating programs, amid the implementation of granular lockdowns. Industrial sales grew 2% as travel restrictions eased and more industries reopened. Petron's lubricant sales recorded its highest growth at 11%, highlighting the strong performance and market presence of its locally produced engine oils and other similar products.

Consolidated revenues for the year reached P438.1 billion, up 53% from the previous year, driven by the increase in international prices and higher local demand. Recovering oil demand and tightened supply caused Dubai crude prices to breach the US$80 per barrel level in the fourth quarter, which averaged nearly US$70 per barrel in 2021, or 64% higher than 2020's US$42/barrel. This is the highest annual average in the past 3 years.

With improved refining margins and continued operational efficiencies, operating income grew 472% to P17.2 billion, an enormous turnaround from the P4.6 billion operating loss Petron reported in 2020.

Despite the continuing challenges presented by the pandemic, business activity improved with the partial reopening of the economy. By the end of the year, we turned in a robust performance, with some of our businesses achieving full recovery, and even registering improvements over their pre-pandemic 2019 performance.

## INFRASTRUCTURE

SMC Infrastructure's revenues rose 35% to P19.7 billion, driven by a 35% combined increase in average daily traffic volume at all our operating toll roads. SLEx Skyway 1, 2 and 3, STAR, TPLEx and NAIAx all posted double digit volume growth, reflecting motorists' increased ability to travel.

Notably, operating income grew 164% to P6.8 billion, driven by volume increases and margin improvements, backed by cost management initiatives.

SMC Infrastructure's new and ongoing projects also steadily progressed throughout 2021. Apart from the opening of the Skyway Stage 3 and the South Luzon Expressway Elevated Extension project, it signed in September a Supplemental Toll Operations Agreement (STOA) with the Department of Public Works and Highways (DPWH) and Toll Regulatory Board (TRB) for the financing, construction, operation, and maintenance of the Pasig River Expressway (PAREx). A 19.27-km elevated expressway running along the banks of the Pasig River, the project will extend from Manila to Taguig, serving as the long-overdue east-to-west and vice-versa link of Metro Manila.

The 22-km Metro Rail Transit Line 7 (MRT-7) project is likewise on track, with completion at over 56% and steadily progressing. Test runs of trains for the project is slated to begin by the end of 2022.

Meanwhile, work is also underway on both the SLEX TR4 and Skyway 4 projects. Pre-construction activities along the SLEX TR4 cover the sections from Santo Tomas to Makban, Makban to San Pablo, and San Pablo to Tiaong. Acquisition of rights-of-way is ongoing. Meanwhile, construction of Skyway 4 on workable areas along C-5 is almost complete, while the Detailed Engineering Designs of several sections are either being reviewed by the independent consultant, or are pending approval and signing by the Toll Regulatory Board.

With Bulacan Bulk Water Stages 1 and 2 facilities already operational, preparatory work for Stage 3 of the facility has also begun.

# Financial Position

San Miguel Corporation's financial position remained strong as of end of 2021, with funding obligations and financing requirements closely managed. During the year, SMC and Petron issued Peso Fixed Rate Bonds while SMC Global Power issued US$ Senior Perpetual Capital Securities. Furthermore, SMC Global Power and San Miguel Brewery paid their Peso Fixed Rate Bonds, together with the redemption of SMC and Petron Peso Preferred Shares, and SMC Global Power's US$ Undated Subordinated Capital Securities.

SMC's consolidated total assets stood at P2.1 trillion as of December 31, 2021, P139.4 billion or 7% higher than as of December 31, 2020. The increase was primarily due to higher balance of trade and other receivables, inventories, property, plant and equipment, and other intangible assets, partly offset by the decrease in cash and cash equivalents.

Consolidated cash balance decreased by P47.2 billion, ending at P300.0 billion as of December 31, 2021, from P347.2 billion as of December 31, 2020, mainly due to capital expenditures for ongoing projects of the Fuels, Energy, Food and Beverage, Cement, and Infrastructure businesses; payment of lease liabilities and dividends and distributions and redemption of equity securities, which was partly offset by the cash generated from operations and net proceeds from short-term loans, long-term debt, and issuance of capital securities.

Trade and other receivables-net increased by P37.4 billion ending at P161.8 billion mainly due to higher trade customer balances of Petron and the Energy business and higher receivables from the Malaysian Government under the Automatic Pricing Mechanism of Petron Malaysia.

Inventories ended at P141.2 billion, an increase of P38.4 billion resulting mainly from higher prices of crude oil and finished products of Petron, increase in prices of imported raw material purchases by SMFB's Food division's Feeds and Flour businesses, and higher average cost of coal inventory by the Energy business.

Noncurrent assets ended at P1.3 trillion as of December 31, 2021, mainly due to increase in property, plant, and equipment and other intangible assets, higher by P77.4 billion or 11% as of December 31, 2020.

Property, plant, and equipment amounted to P567.6 billion, an increase by P56.0 billion mainly due to costs of on-going projects of the Energy and Cement businesses, SMFB's Food and Beer and NAB divisions, and Petron, while other intangible assets increased by P21.4 billion due to the costs of the various ongoing projects of the Infrastructure business.

Total liabilities reached P1.4 trillion, P113.3 billion or 9% higher than P1.3 trillion reported as of December 31, 2020, mainly due to an increase in Interest bearing debt, which reached P1.0 trillion, P97.2 billion or 11% higher than the P907.6 billion reported as of December 31, 2020. This was offset by a decline in lease liabilities by 19% at P95.0 billion, from P117.0 billion as of December 31, 2020.

Loans payable increased by P50.1 billion ending at P190.8 billion due to the net availments by SMC and Petron for general corporate purposes, net of payments made by SMFB and SMC Shipping and Lighterage Corporation.

Accounts payable and accrued expenses increased by P41.3 billion, ending at P194.6 billion, mainly due to Petron's higher liabilities for crude oil and petroleum products on account of the increase in prices and additional payables to contractors for the ongoing projects of the Energy business.

Long-term debt, net of debt issue costs, increased by P47.1 million to P814.0 billion, mainly due to the availments by SMC, SMC Tollways, PF Hormel, NCC and SCII and the revaluation of foreign currency denominated loans, which was partly offset by the payments of Petron, SMC Infrastructure, Packaging, and Energy businesses.

Net debt amounted to P704.7 billion as of December 31, 2021, higher by P144.4 billion from P560.3 billion as of December 31, 2020.

Total stockholders' equity amounted to P681.2 billion as of December 31, 2021, an increase of 4% or P26.1 billion from P655.1 billion as of December 31, 2020. This was due to the issuance of Senior Perpetual Capital Securities by SMC Global Power and Petron; share of non-controlling interests on the Group's net income, and increase in equity reserves from the gain on exchange differences on the translation of foreign operations, which was offset by share of non-controlling interests on cash dividends and distributions declared, and the redemption by SMC and Petron of preferred shares, and by SMC Global Power of Undated Subordinated Capital Securities.

Current ratio as of December 31, 2021 was at 1.36x against 1.60x as of December 31, 2020. Total-debt-to-equity was at 2.01x. Interest bearing debt-to-equity was at 1.47x, compared to 1.39x as of December 31, 2020. Interest Rate Coverage ratio was at 2.34x.



# Milestones

**JANUARY**

SMC Infrastructure officially inaugurates and opens to the public Skyway Stage 3.

**FEBRUARY**

SMC announces its P1-billion commitment to vaccinate 70,000 employees and extended workforce and their families.

**MARCH**

Waived toll fees from medical frontliners at all SMC tollways reach over P200 million.

**MARCH**

San Miguel Yamamura Packaging Corporation develops packaging format extending carabao milk shelf life to six months, without preservatives.

**APRIL**

San Miguel Foundation launches its *Backyard Bukid* urban gardening project to help employee-beneficiaries grow crops to augment their food supplies and earn extra income.

**APRIL**

SMC Infrastructure opens the northbound section of the SLEX Elevated Extension project.

**MAY**

SMC Infrastructure opens the southbound Quirino exit of Skyway Stage 3.

**MAY**

SMC deploys over 100 doctors and nurses to local government vaccination sites to help administer COVID-19 vaccines in NCR.

**JUNE**

SMC launches its *Ligtas Lahat* vaccination program, aimed at inoculating the entire SMC workforce and extended community.






**JULY**

SMC launches its P2-billion Pasig River Rehabilitation project.

**JULY**

Skyway Stage 3 is issued a Toll Operating Permit and Notice to Start Collecting Toll Fees from the Toll Regulatory Board (TRB).

**AUGUST**

SMC assures the public that it has enough supply of food, fuel, and power for the two-week enhanced community quarantine in Metro Manila.

**SEPTEMBER**

Government and SMC Infrastructure sign a Supplemental Toll Operations Agreement for the 19.37-km Pasig River Expressway (PAREX) project.

**SEPTEMBER**

SMC Infrastructure takes delivery of first batch of trains for the MRT-7 project.

**OCTOBER**

SMC officially opens the San Miguel Market in Sariaya, Quezon, a regional hub for pandemic-hit farmers and fisherfolk.

**OCTOBER**

San Miguel Properties Inc. officially opens Circolo Market, a rent-free community market, that aims to support local farmers and small businesses.

**NOVEMBER**

SMC expands program to disinfect public spaces nationwide.

**DECEMBER**

SMC Global Power Foundation plants a total 3,747,898 trees under Project 747, its nationwide forest rehabilitation program.

**DECEMBER**

SMC dispatches food aid worth P30 million to communities affected by Typhoon Odette.

# Board of Directors

**Ramon S. Ang**
Vice Chairman, President and CEO
Member, Executive Committee

**John Paul L. Ang**

**Aurora T. Calderon**
Member, Corporate Governance Committee

**Joselito D. Campos, Jr.**
Member, Related Party Transactions Committee

**Jose C. de Venecia, Jr.**

**Menardo R. Jimenez**
Member, Executive Committee
Member, Corporate Governance Committee

**Estelito P. Mendoza**
Member, Executive Committee
Member, Audit and Risk Oversight Committee

**Alexander J. Poblador**
Member, Related Party Transactions Committee

**Thomas A. Tan**

**Ramon F. Villavicencio**

**Iñigo Zobel**
Member, Executive Committee

**Teresita J. Leonardo-De Castro**
Independent Director
Chairman, Related Party Transactions Committee
Member, Audit and Risk Oversight Committee

**Diosdado M. Peralta**
Independent Director
Member, Audit and Risk Oversight Committee
Member, Corporate Governance Committee

**Reynato S. Puno**
Independent Director
Chairman, Corporate Governance Committee
Member, Audit and Risk Oversight Committee
Member, Related Party Transactions Committee

**Margarito B. Teves**
Independent Director
Chairman, Audit and Risk Oversight Committee
Member, Corporate Governance Committee
Member, Related Party Transactions Committee

# Key Executives

**Ramon S. Ang**
Vice Chairman, President and Chief Executive Officer

**Ferdinand K. Constantino**
Chief Finance Officer and Treasurer

**Virgilio S. Jacinto**
Corporate Secretary and General Counsel

SAN MIGUEL FOOD AND BEVERAGE, INC.
**Roberto N. Huang**
Chief Operating Officer – Beer
President, SAN MIGUEL BREWERY INC.

**Carlos Antonio M. Berba**
Managing Director
SAN MIGUEL BREWING INTERNATIONAL LIMITED

**Francisco S. Alejo III**
Chief Operating Officer – Food
President, SAN MIGUEL FOODS

**Emmanuel B. Macalalag**
Chief Operating Officer – Spirits
General Manager, GINEBRA SAN MIGUEL INC.

SAN MIGUEL YAMAMURA PACKAGING CORPORATION
**Ferdinand A. Tumpalan**
President

PETRON CORPORATION
**Lubin B. Nepomuceno**
General Manager

SMC GLOBAL POWER HOLDINGS CORP.
**Elenita D. Go**
General Manager

SAN MIGUEL HOLDINGS CORP.
SMC INFRASTRUCTURE
**Lorenzo G. Formoso III**
Senior Vice President and Head

SAN MIGUEL PROPERTIES, INC.
**Karen V. Ramos**
General Manager

NORTHERN CEMENT CORPORATION
**Rodelia S. Sarrosa**
Officer-in-charge

# Corporate Governance

San Miguel Corporation is committed to the highest standards of corporate governance. Good governance is key in effective decision making and in delivering on corporate strategies that generate shareholder value and safeguard the long-term interests of shareholders.

As a responsible corporate citizen, the Company has in place efficient policies and programs to ensure that we always do what is right when it comes to conducting the everyday business of the Company.

Our Board of Directors, led by our Vice-Chairman, Mr. Ramon S. Ang, believes in conducting our business affairs in a fair and transparent manner and in maintaining the highest ethical standards in all the business dealings of the Company.

## SHAREHOLDERS' RIGHTS

The Company recognizes that the most cogent proof of good corporate governance is that which is visible to the eyes of its investors.

**Voting rights**
Each common share in the name of the shareholder entitles such shareholder to one vote, which may be exercised in person or by proxy at shareholders' meetings, including the Annual General Stockholders' Meeting (AGSM). Common shareholders have the right to elect, remove, and replace directors, as well as vote on certain corporate acts specified in the Revised Corporation Code.

Preferred shareholders have the right to vote on matters involving certain corporate acts specified in the Revised Corporation Code. They enjoy certain preferences over holders of common shares in terms of dividends and in the event of liquidation of the Company.

**Pre-emptive rights**
Under the Company's amended articles of incorporation, as approved by the shareholders in a meeting held on May 17, 2009, and as approved by the Securities and Exchange Commission (SEC), shareholders do not have pre-emptive rights to the issuance of shares relating to equity-linked debt or other securities, any class of preferred shares, shares in payment of a previously contracted debt, or shares in exchange for property needed for corporate purposes. This is to give the Company greater flexibility in raising additional capital, managing its financial alternatives, and issuing financing instruments.

On May 31, 2010, the shareholders of the Company approved to amend the articles of incorporation to deny pre-emptive rights to any issuance of common shares. Such amendment of the articles of incorporation was approved by the SEC on August 10, 2010.

Subject to certain conditions, shareholders also do not have pre-emptive rights to shares issued, sold or disposed of by the Company to its officers and/or employees pursuant to a duly approved stock option, stock purchase, stock subscription or similar plans.

**Right to Information**
Shareholders are provided, through the Investor Relations Group headed by Ms. Reyna-Beth De Guzman, disclosures, announcements, and, upon request, periodic reports filed with the SEC. All disclosures of the Company are likewise immediately available and downloadable at the Company's website upon disclosure to the Philippine Stock Exchange (PSE).

**Dividends**
Shareholders are entitled to receive dividends as the Board, in its discretion, may declare from time to time. However, the Company is required, subject to certain exceptions under the law, to declare dividends when the retained earnings are equal to or exceed its paid-up capital stock.

Cash dividends paid by the Board of Directors of the Parent Company amounted to P1.40 per common share both in 2020 and 2021.

Cash dividends paid by the Board of Directors of the Parent Company to the preferred shareholders in 2020 and 2021 are as follows:

| | 2020 | 2021 |
|---|---|---|
| Series "2-C" | P6.00000000 | P4.50000000 |
| Series "2-D"[1] | P3.34299375 | N/A |
| Series "2-E" | P4.74412500 | P3.55809375 |
| Series "2-F" | P5.10540000 | P5.10540000 |
| Series "2-G" | P4.93447500 | P1.23361875 |
| Series "2-H" | P4.74165000 | P4.74165000 |
| Series "2-I" | P4.75162500 | P4.75162500 |
| Series "2-J"[2] | P0.89062500 | P3.56250000 |
| Series "2-K"[3] | N/A | P3.37500000 |

[1] Redeemed on September 21, 2020
[2] Issued on October 29, 2020
[3] Issued on December 10, 2020

## STAKEHOLDER RELATIONS

San Miguel Corporation exercises transparency when dealing with shareholders, customers, employees, trade partners, creditors, and all other stakeholders. The Company ensures that these transactions adhere to fair business practices in order to establish long-term and mutually beneficial relationships.

**Shareholder Meeting and Voting Procedures**
Stockholders are informed at least 21 calendar days before the scheduled meeting of the date, time, and place of the validation of proxies, in accordance with the Revised Corporation Code. In 2021, Notices of the 2021 AGSM were sent to the stockholders on May 14, 2021, 25 days prior to the AGSM which was held on June 8, 2021. Voting procedures on matters presented for approval of the stockholders in the AGSM are set out in the Definitive Information Statement distributed to all shareholders of the Company.

**Shareholder and Investor Relations**
San Miguel Corporation responds to information requests from the investing community and keeps shareholders informed through timely disclosures to the PSE and the SEC and through regular quarterly briefings, AGSMs, investor briefings and conferences, the Company's website, and responses to email and telephone queries. The Company's disclosures and other filings with the SEC and PSE are available for viewing and download at the Company's website.

The Company, through the Investor Relations group under Corporate Finance, regularly holds briefings and meetings with investment and financial analysts.

## DISCLOSURE AND TRANSPARENCY

San Miguel Corporation adheres to a high level of standard in its corporate disclosure and adopts transparency with respect to the Company's financial condition and state of corporate governance.

**Ownership Structure**
The top 20 shareholders of the Company, including the shareholdings of certain record and beneficial owners who own more than 5% of its capital stock, its directors and key officers, are disclosed annually in the Definitive Information Statement distributed to shareholders prior to the AGSM.

**Financial Reporting**
San Miguel Corporation provides the investing community with regular updates on operating and financial information through adequate and timely disclosures filed with the SEC and the PSE. Consolidated audited financial statements are submitted to the SEC and the PSE on or before the prescribed period and are available to the shareholders prior to the AGSM.

San Miguel Corporation's financial statements conform to Philippine Accounting Standards and Philippine Financial Reporting standards, which are all in compliance with International Accounting Standards.

Quarterly financial results, on the other hand, are released and are duly disclosed to the SEC and PSE in accordance with the prescribed rules.

The results are also presented to financial and investment analysts through a quarterly analysts' briefing. These disclosures are likewise posted on the Company's corporate website.

In addition to compliance with structural reportorial requirements, the Company discloses in a timely manner market-sensitive information such as dividend declarations, joint ventures and acquisitions, and the sale and divestment of significant assets that materially affect the share price performance of the Company.

**Securities Dealing**
The Company has adopted a policy which regulates the acquisition and disposal of Company shares by its directors, officers, and employees, and the use and disclosure of price-sensitive information by such persons. Under the policy, directors, officers, and employees who have knowledge or are in possession of material nonpublic information are prohibited from dealing in the Company's securities prior to disclosure of such information to the public. The policy likewise prescribes the periods before and after public disclosure of structured and non-structured reports—during which trading in the Company's securities by persons who, by virtue of their functions and responsibilities, are considered to have knowledge or possession of material non public information—is not allowed.

## ACCOUNTABILITY AND AUDIT

The Audit and Risk Oversight Committee has oversight functions with respect to the external and internal auditors. The role and responsibilities of the Audit and Risk Oversight Committee are clearly defined in the Company's Manual on Corporate Governance and the Audit and Risk Oversight Committee Charter.

**External Auditor**
The accounting firm of R.G. Manabat & Co., accredited by the SEC, served as the Company's external auditors for the fiscal years 2020 and 2021.

The external auditor is selected and appointed by the shareholders upon the recommendation of the Board and subject to rotation every five years or earlier, in accordance with SEC regulations. The external auditor's main function is to facilitate the environment of good corporate governance, as reflected in the Company's financial records and reports, through the conduct of an independent annual audit on the Company's business, and rendition of an objective opinion on the reasonableness of such records and reports.

The external auditors attend the AGSM of the Company and respond to appropriate questions during the meeting. They also have the opportunity to make a statement if they so desire. In instances when the external auditor suspects fraud or error during its conduct of audit, they are required to disclose and express their findings on the matter.

The Company paid the external auditor Audit Fees amounting to P8 million and P17 million, respectively, in 2021 and 2020.

**Internal Audit**
Internal audit is carried out by the San Miguel Group Audit (SMGA) which helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The SMGA directly reports to the Audit and Risk Oversight Committee.

The SMGA is responsible for identifying and evaluating significant risk exposures and contributes to the improvement of risk management and control systems by assessing the adequacy and effectiveness of controls covering the organization's governance, operations, and information systems. By evaluating their effectiveness and efficiency, and by promoting continuous improvement, the group maintains effective controls of their responsibilities and functions.

The Board approved and adopted an Internal Audit Charter of the Company on March 16, 2017, in compliance with the requirements of the Securities and Exchange Commission.

## BOARD OF DIRECTORS

Compliance with the principles of good corporate governance starts with the Company's Board of Directors. The Board is responsible for oversight of the business affairs and integrity of the Company; determination of the Company's mission, long term strategy, and objectives; the management of the Company's risks through evaluation, and ensuring the adequacy of the Company's internal controls and procedures.

It is the responsibility of the Board to foster and engender the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, exercised in the best interest of the Company, its shareholders, and other stakeholders.

**Composition**
The Board consists of 15 members, each elected by the common stockholders during the AGSM. The Board members hold office for one year until their successors are duly elected and qualified in accordance with the amended by-laws of the Company

The broad range of skills, expertise, and experience of the directors in the fields of management, economics, business, finance, accounting, and law, ensure comprehensive evaluation of, and sound judgment on, matters relevant to the Company's businesses and related interests. The names, profiles, and shareholdings of each director are found in the Definitive Information Statement, distributed prior to the AGSM.

The Board of Directors and the senior management of the Company have all undergone the requisite training on corporate governance.

**Independent and Non-Executive Directors**
San Miguel Corporation has four (4) independent directors. Currently, of the 15 directors, Madame (Ret.) Chief Justice Teresita J. Leonardo-De Castro, Messrs. (Ret.) Chief Justice Reynato S. Puno, (Ret.) Chief Justice Diosdado M. Peralta, and Margarito B. Teves sit as independent and non- executive directors of the Company.

The Company defines an independent director as a person who, apart from his fees and shareholdings, has no business or relationship with the Corporation which could, or could reasonably be perceived to, materially interfere with the exercise of his independent judgment in carrying out his responsibilities as a director. An Independent Director submits to the Corporate Secretary a certification confirming that he possesses all the qualifications and none of the disqualifications of an Independent Director at the time of his or her election and/or re-election as an Independent Director.

The Company strictly complies with SEC Memorandum Circular No. 4, Series of 2017 on the term limits of independent directors.

A majority of the members of the Board of Directors of the Company are non-executive directors.

**Chairman/CEO and President/COO[1]**
Mr. Ramon S. Ang holds the position of Vice Chairman, President, and Chief Executive Officer. The positions of Chairman of the Board, and President and CEO are held by separate individuals with their respective roles clearly defined to ensure independence, accountability, and responsibility in the discharge of their duties. The Vice Chairman attended the AGSM for 2021.

[1] On November 2, 2021, the Securities and Exchange Commission approved the amendment to the amended by-laws of the Company which amended the roles and duties of the Chairman and Chief Executive Officer and the President and Chief Operating Officer. With the amendment, the position of Chairman of the Board and President/Chief Executive Officer will be held by separate individuals.

**Board Performance**
The Board holds regular meetings. To assist the directors in the discharge of their duties, each director is given access to the Corporate Secretary and Assistant Corporate Secretary, who serve as counsel to the board of directors and at the same time communicate with the Board, management, the Company's shareholders, and the investing public.

In 2021, the Board held nine meetings. Set out below is the record of attendance of the directors at these meetings and at the AGSM.

| Name of Directors | 21 Jan | 11 Mar | 15 Apr | 06 May | 08 Jun* | 05 Aug | 09 Sep | 11 Nov | 02 Dec |
|---|---|---|---|---|---|---|---|---|---|
| Ramon S. Ang | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| John Paul L. Ang | N/A | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Aurora T. Calderon | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Joselito D. Campos, Jr. | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Teresita J. Leonardo-De Castro | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Menardo R. Jimenez | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Estelito P. Mendoza | ◙ | ◙ | ◙ | - | ◙ | ◙ | ◙ | ◙ | ◙ |
| Alexander J. Poblador | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Reynato S. Puno | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Thomas A. Tan | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Margarito B. Teves | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Iñigo Zobel | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Jose C. De Venecia, Jr. | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ | ◙ |
| Ramon V. Villavicencio | ◙ | ◙ | ◙ | - | ◙ | ◙ | ◙ | ◙ | ◙ |
| Diosdado M. Peralta** | N/A | N/A | N/A | N/A | ◙ | ◙ | ◙ | ◙ | ◙ |
| Leo S. Alvez | ◙ | ◙ | ◙ | ◙ | ◙ | N/A | N/A | N/A | N/A |

* Annual General Stockholders Meeting and Organizational Board Meeting
** Elected as Director on June 8, 2021
◙ (Present) Meeting via zoom videoconference
\- Absent

**Board Remuneration**
The amended by-laws of the Company provide that the Board of Directors shall receive as compensation no more than 2% of the profits obtained during the year after deducting 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. In 2010, the Board of Directors approved the increase in the per diems for each Board meeting attended by the members of the Board from P10,000 to P50,000, and from P10,000 to P20,000 for each committee meeting attended.

Directors who are executive officers of the Company are likewise granted stock options under the Company's Long-Term Incentive Plan for Stock Options, which plan is administered by the Executive Compensation Committee.

**Board Committees**
To assist the Board in complying with the principles of good corporate governance, the Board created four committees.

Executive Committee. The Executive Committee is currently composed of four directors, which includes the Vice-Chairman of the Board, President and COO. The Committee acts within the power and authority granted upon it by the Board and is called upon when the Board is not in session to exercise the powers of the latter in the management of the Company—with the exception of the power to appoint any entity as general managers or management or technical consultants; to guarantee obligations of other corporations in which the Company has lawful interest; to appoint trustees who, for the benefit of the Company, may receive and retain such properties of the Company or entities in which it has interests; and to perform such acts as may be necessary to transfer ownership of such properties to trustees of the Company, and such other powers as may be specifically limited by the Board or by law.

In 2021, the Executive Committee had one meeting.

Corporate Governance Committee. The Corporate Governance Committee is currently composed of five voting directors—three of whom are independent. Mr. Reynato S. Puno, an independent director, is the Chairman of the Committee.

The Corporate Governance Committee was constituted to aid the Board in the performance of its oversight responsibilities in the development and implementation of the corporate governance principles, policies, structures, and systems of the Corporation, and assist the Board in the performance of its corporate governance responsibilities.

In 2021, the Corporate Governance Committee held four meetings.

Audit and Risk Oversight Committee. The Audit and Risk Oversight Committee is currently composed of five members with three independent directors as members. Mr. Margarito B. Teves sits as Committee Chairman.

The Audit and Risk Oversight Committee performs oversight functions over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations, as well as oversight over the Company's enterprise risk management system to ensure its functionality and effectiveness.

The Audit and Risk Oversight Committee held four meetings in 2021, wherein the Committee reviewed and approved, among others, the Company's 2020 Consolidated Audited Financial Statements as reviewed by the external auditors, and the Company's unaudited financial statements for the first to the third quarters of the year 2021.

The Audit and Risk Oversight Committee has adopted an Audit and Risk Oversight Committee Charter in accordance with the prescribed audit and risk oversight committee charter of the Securities and Exchange Commission.

Related Party Transactions Committee. The Related Party Transactions Committee is currently composed of five members, three of whom are independent directors. The Related Party Transactions Committee is chaired by independent director, Teresita J. Leonardo-de Castro.

The Related Party Transactions Committee reviews all material related party transactions of the Company. The Committee held one meeting in 2021.

**Board Committee Members**

The members of each Board Committee and their attendance at the Board Committee meetings in 2021 are set out in the tables below. Except for the Chairman of the Executive Committee, all the respective Chairmen of the board committees attended the 2021 AGSM.

| Executive Committee | 09 Nov |
|---|---|
| Ramon S. Ang | ◙ |
| Menardo R. Jimenez | ◙ |
| Estelito P. Mendoza | ◙ |
| Iñigo Zobel | ◙ |

| Audit and Risk Oversight Committee | 11 Mar | 06 May | 05 Aug | 11 Nov |
|---|---|---|---|---|
| Margarito B. Teves (Chairman) | ◙ | ◙ | ◙ | ◙ |
| Estelito P. Mendoza | ◙ | ◙ | ◙ | ◙ |
| Reynato S. Puno | ◙ | ◙ | ◙ | ◙ |
| Teresita J. Leonardo-De Castro* | - | - | ◙ | ◙ |
| Diosdado M. Peralta** | - | - | ◙ | ◙ |
| Leo S. Alvez | ◙ | ◙ | - | - |

| Corporate Governance Committee | 21 Jan | 15 Apr | 08 Jun* | 02 Dec |
|---|---|---|---|---|
| Reynato S. Puno (Chairman) | ◙ | ◙ | ◙ | ◙ |
| Aurora T. Calderon | ◙ | ◙ | ◙ | ◙ |
| Menardo R. Jimenez | ◙ | ◙ | ◙ | ◙ |
| Margarito B. Teves | ◙ | ◙ | ◙ | ◙ |
| Diosdado M. Peralta** | - | - | - | ◙ |

| Related Party Transactions Committee | 11 Mar |
|---|---|
| Teresita J. Leonardo-De Castro (Chairman)* | - |
| Joselito D. Campos, Jr. | ◙ |
| Alexander J. Poblador | ◙ |
| Reynato S. Puno | ◙ |
| Margarito B. Teves | ◙ |

* Appointed as Member / Chairman on June 8, 2021.
** Appointed as Member on June 8, 2021
◙ Present via zoom videoconference
\- N/A

## MANAGEMENT

Management is primarily responsible for the day-to-day operations and business of the Company. The annual compensation of the Chairman/CEO and the top senior executives of the company are set out in the Definitive Information Statement distributed to shareholders.

## EMPLOYEE RELATIONS

Employees are provided an Employee Handbook and Code of Ethics which contain the policies and guidelines for the duties and responsibilities of an employee of San Miguel Corporation. Through internal newsletters and company e-mails all facilitated by the Human Resources Department and the Corporate Affairs Office, employees are updated on material developments within the organization.

Career advancement and development is also provided by the Company through numerous training programs and seminars. The Company has also initiated activities centered on the safety, health and welfare of its employees. Benefits and privileges accruing to all regular employees are similarly discussed in the Employee Handbook.

## CODE OF ETHICS

The Company's Code of Ethics sets out the fundamental standards of conduct and values consistent with the principles of good governance and business practices that shall guide and define the actions and decisions of the directors, officers, and employees of the Company. The principles and standards prescribed in the Code of Ethics apply to all directors, senior managers, and employees of the Company.

Procedures are well established for the communication and investigation of concerns regarding the Company's accounting, internal accounting controls, auditing, and financial reporting matters to the Audit and Risk Oversight Committee.

**Whistle-blowing policy**
The Company has an established whistle-blowing policy aimed at encouraging employees to speak out and call the attention of Management to any suspected wrongdoing which is contrary to the principles of the Code of Ethics and violations of the Company's rules and regulations.

The policy aims to protect the whistle-blower from retribution or retaliation, and provides a disincentive to passively allowing the commission of wrongful conduct.

These policies are available at the Company's website.

## COMPLIANCE MONITORING

The Compliance Officer, Atty. Virgilio S. Jacinto, is responsible for monitoring compliance by the Company with the provisions and requirements of good corporate governance.

On April 14, 2010, the Board Directors amended its Manual of Corporate Governance in compliance with the Revised Code of Corporate Governance issued by the Securities and Exchange Commission, 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.

On May 10, 2017, the Board of Directors of the Company approved the adoption of a new Manual on Corporate Governance in compliance with SEC Memorandum Circular No. 19, Series of 2016.

## WEBSITE

Up-to-date information on the Company's corporate structure, products and services, results of business operations, financial statements, career opportunities, and other relevant information on the Company may be found at its website *https://www.sanmiguel.com.ph*.

The Board of Directors
San Miguel Corporation

# REPORT OF THE AUDIT AND RISK OVERSIGHT COMMITTEE

For the year ended December 31, 2021

The Audit and Risk Oversight Committee assists the Board of Directors in its corporate governance and oversight responsibilities in relation to financial reporting, risk management, internal controls and internal and external audit processes and methodologies. In fulfillment of these responsibilities, the Audit and Risk Oversight Committee performed the following in 2021:

- endorsed for approval by the stockholders, and the stockholders approved the appointment of R.G. Manabat & Co. CPAs (formerly Manabat Sanagustin & Co. CPAs) as the Company's independent external auditors for 2021.

- reviewed and approved the terms of engagement of the external auditors, including the audit, audit-related and any non-audit services provided by the external auditors to the Company and the fees for such services, and ensured that the same did not impair the external auditors' independence and objectivity;

- reviewed and approved the scope of the audit and audit programs of the external auditor as well as the internal audit group of the Company, and have discussed the results of their audit processes and their findings and assessment of the Company's internal controls and financial reporting systems;

- reviewed, discussed and recommended for approval of the Board of Directors the Company's annual and quarterly consolidated financial statements, and the reports required to be submitted to regulatory agencies in connection with such consolidated financial statements, to ensure that the information contained in such statements and reports presents a true and balanced assessment of the Company's position and condition and comply with the regulatory requirements of the Securities and Exchange Commission; and

- reviewed the effectiveness and sufficiency of the Company's financial and internal controls, risk management systems, and control and governance processes, and ensured that, where applicable, necessary measures are taken to address any concern or issue arising therefrom.

- reported compliance to the Securities and Exchange Commission on the results of the accomplishment by the members of the Audit and Risk Oversight Committee on the Audit and Risk Oversight Committee Self-Rating Form in accordance with the Audit and Risk Oversight Committee Charter and in compliance with the requirements of the SEC Memorandum Circular No. 4, Series of 2012.

All the five members of the Audit and Risk Oversight Committee, four of whom are independent directors, are satisfied with the scope and appropriateness of the Committee's mandate and that the Committee substantially met its mandate in 2021.

**Margarito B. Teves**
Chairman - Independent Director

**Estelito P. Mendoza**
Member

**Reynato S. Puno**
Member - Independent Director

**Teresita J. Leonardo-De Castro**
Member - Independent Director

**Diosdado M. Peralta**
Member - Independent Director

SAN MIGUEL CORPORATION AND SUBSIDIARIES

# SELECTED FINANCIAL DATA
# DECEMBER 31, 2021, 2020 AND 2021

(In Millions, Except Per Share and Statistical Data)

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| **For the Year** | | | |
| Sales | **P941,193** | P725,797 | P1,020,502 |
| Net Income | **P48,159** | P21,879 | P48,574 |
| Net Income Attributable to Equity Holders of the Parent Company | **P13,925** | P2,973 | P21,329 |
| Basic Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company [A] | **P2.48** | (P1.66) | P5.93 |
| Taxes | **P217,408** | P190,864 | P221,629 |
| Cash Dividends and Distributions | **P11,343** | P9,627 | P10,524 |
| Cash Dividends Per Common Share [B] | **P1.40** | P1.40 | P1.40 |
| Cash Dividends Per Preferred Share [B] | | | |
| SMCP1 | **P-** | P1.05656 | P4.22625 |
| SMC2B | **P-** | P- | P4.2890625 |
| SMC2C | **P4.50** | P6.00 | P6.00 |
| SMC2D | **P-** | P3.342994 | P4.457325 |
| SMC2E | **P3.55809375** | P4.744125 | P4.744125 |
| SMC2F | **P5.1054** | P5.1054 | P5.1054 |
| SMC2G | **P1.23361875** | P4.934475 | P4.934475 |
| SMC2H | **P4.74165** | P4.74165 | P4.74165 |
| SMC2I | **P4.751625** | P4.751625 | P4.751625 |
| SMC2J | **P3.5625** | P0.890625 | P- |
| SMC2K | **P3.375** | P- | P- |
| **At Year-End** | | | |
| Working Capital | **P189,806** | P253,027 | P201,527 |
| Total Assets | **P2,051,653** | P1,912,207 | P1,817,734 |
| Property, Plant and Equipment - Net | **P567,609** | P511,624 | P463,614 |
| Equity Attributable to Equity Holders of the Parent Company | **P326,630** | P354,864 | P332,456 |
| Equity Per Share Attributable to Equity Holders of the Parent Company | | | |
| Common | **P92.98** | P90.56 | P95.99 |
| Preferred | **P75.00** | P75.00 | P75.00 |
| Number of Common Shares Outstanding - Net of Treasury Shares | **2,383,896,588** | 2,383,896,588 | 2,383,896,588 |
| Number of Preferred Shares Outstanding | **1,007,238,467** | 1,463,464,567 | 1,381,633,067 |
| Number of Common Stockholders | **33,828** | 34,013 | 34,164 |
| Number of Preferred Stockholders | **366** | 910 | 1,046 |
| Number of Employees | **45,614** | 45,522 | 44,024 |
| **Financial Statistics** | | | |
| % Return on Average Equity Attributable to Equity Holders of the Parent Company | **4.09%** | 0.87% | 6.36% |
| Current Ratio | **1.36** | 1.60 | 1.46 |
| Debt to Equity Ratio [C] | **2.01** | 1.92 | 2.16 |
| Market Price | | | |
| Common Shares | | | |
| High | **P134.00** | P165.00 | P195.90 |
| Low | **P102.30** | P72.50 | P144.80 |
| Series "2" Preferred Shares | | | |
| Subseries 2-B | | | |
| High | **P-** | P- | P77.50 |
| Low | **P-** | P- | P73.15 |
| Subseries 2-C | | | |
| High | **P80.90** | P79.00 | P79.00 |
| Low | **P75.90** | P74.80 | P75.00 |
| Subseries 2-D | | | |
| High | **P-** | P76.15 | P76.45 |
| Low | **P-** | P73.00 | P71.05 |
| Subseries 2-E | | | |
| High | **P78.00** | P77.15 | P77.00 |
| Low | **P75.40** | P73.00 | P71.30 |
| Subseries 2-F | | | |
| High | **P80.00** | P80.00 | P78.00 |
| Low | **P77.25** | P74.00 | P72.00 |
| Subseries 2-G | | | |
| High | **P77.00** | P77.85 | P78.00 |
| Low | **P75.40** | P73.00 | P71.20 |
| Subseries 2-H | | | |
| High | **P79.00** | P78.00 | P79.95 |
| Low | **P75.60** | P73.80 | P70.00 |
| Subseries 2-I | | | |
| High | **P79.80** | P79.00 | P77.00 |
| Low | **P76.00** | P73.50 | P40.80 |
| Subseries 2-J | | | |
| High | **P80.00** | P77.10 | P- |
| Low | **P75.00** | P75.00 | P- |
| Subseries 2-K | | | |
| High | **P77.50** | P76.40 | P- |
| Low | **P75.00** | P75.00 | P- |

[A] *Based on the weighted average number of shares outstanding during the year*
[B] *Based on the number of shares outstanding at the date of each declaration*
[C] *Total debt to equity, where total debt represents total liabilities*

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, 2021, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**RAMON S. ANG**
Vice Chairman, President and
Chief Executive Officer

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

Signed this 10th day of March 2022



R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com



## REPORT OF INDEPENDENT AUDITORS

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

*Opinion*

We have audited the consolidated financial statements of San Miguel Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021, in accordance with Philippine Financial Reporting Standards (PFRS).

*Basis for Opinion*

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

*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.

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee

*Revenue recognition (P941,193 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 (P130,081 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 (P190,979 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, 2021, 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, 2021 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.

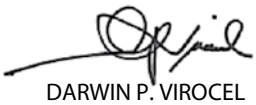
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, actions taken to eliminate threats or safeguards applied.

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

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

**R.G. MANABAT & CO.**



DARWIN P. VIROCEL
Partner
CPA License No. 0094495
SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years
covering the audit of 2019 to 2023 financial statements
Tax Identification No. 912-535-864
BIR Accreditation No. 08-001987-031-2019
Issued August 7, 2019; valid until August 6, 2022
PTR No. MKT 8854088
Issued January 3, 2022 at Makati City

March 18, 2022
Makati City, Metro Manila

SAN MIGUEL CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
# DECEMBER 31, 2021 AND 2020

*(In Millions)*

| | Note | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *4, 5, 7, 39, 40* | **P300,030** | P347,209 |
| Trade and other receivables - net | *4, 5, 8, 33, 35, 39, 40* | **161,808** | 124,369 |
| Inventories | *4, 5, 9* | **141,209** | 102,822 |
| Current portion of biological assets - net | *4, 16* | **3,106** | 3,401 |
| Prepaid expenses and other current assets | *4, 5, 10, 12, 23, 33, 34, 39, 40* | **108,689** | 94,610 |
| **Total Current Assets** | | **714,842** | 672,411 |
| **Noncurrent Assets** | | | |
| Investments and advances - net | *4, 5, 11, 23* | **55,002** | 50,495 |
| Investments in equity and debt instruments | *4, 12, 39, 40* | **41,966** | 41,766 |
| Property, plant and equipment - net | *4, 5, 13, 34* | **567,609** | 511,624 |
| Right-of-use assets - net | *4, 5, 14, 34* | **163,364** | 169,208 |
| Investment property - net | *4, 15, 34* | **69,825** | 60,678 |
| Biological assets - net of current portion | *4, 16* | **2,244** | 2,352 |
| Goodwill - net | *4, 17* | **130,081** | 129,733 |
| Other intangible assets - net | *4, 5, 17* | **190,979** | 169,532 |
| Deferred tax assets | *4, 5, 23* | **17,141** | 20,946 |
| Other noncurrent assets - net | *4, 5, 18, 33, 34, 35, 39, 40* | **98,600** | 83,462 |
| **Total Noncurrent Assets** | | **1,336,811** | 1,239,796 |
| | | **P2,051,653** | P1,912,207 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Loans payable | *19, 30, 33, 38, 39, 40* | **P190,779** | P140,645 |
| Accounts payable and accrued expenses | *4, 5, 20, 33, 34, 35, 39, 40* | **194,579** | 153,249 |
| Lease liabilities - current portion | *4, 5, 30, 33, 34, 38, 39, 40* | **23,423** | 25,759 |
| Income and other taxes payable | *5, 23* | **23,102** | 20,998 |
| Dividends payable | *33, 36, 38* | **4,296** | 4,231 |
| Current maturities of long-term debt - net of debt issue costs | *21, 30, 33, 38, 39, 40* | **88,857** | 74,502 |
| **Total Current Liabilities** | | **525,036** | 419,384 |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of current maturities and debt issue costs | *21, 30, 33, 38, 39, 40* | **725,108** | 692,407 |
| Lease liabilities - net of current portion | *4, 5, 30, 33, 34, 38, 39, 40* | **71,569** | 91,278 |
| Deferred tax liabilities | *23* | **28,742** | 27,749 |
| Other noncurrent liabilities | *4, 5, 22, 33, 35, 39, 40* | **19,959** | 26,301 |
| **Total Noncurrent Liabilities** | | **845,378** | 837,735 |
| **Equity** | *24, 36, 37* | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | | |
| Capital stock - common | | **16,443** | 16,443 |
| Capital stock - preferred | | **10,187** | 10,187 |
| Additional paid-in capital | | **177,719** | 177,719 |
| Capital securities | | **28,171** | 28,171 |
| Equity reserves | *5, 23* | **14,136** | 10,131 |
| Retained earnings: | | | |
| Appropriated | | **66,630** | 60,155 |
| Unappropriated | *23* | **157,707** | 162,204 |
| Treasury stock | | **(144,363)** | (110,146) |
| | | **326,630** | 354,864 |
| **Non-controlling Interests** | *2, 5, 23, 24* | **354,609** | 300,224 |
| **Total Equity** | | **681,239** | 655,088 |
| | | **P2,051,653** | P1,912,207 |

*See Notes to the Consolidated Financial Statements.*

SAN MIGUEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

*(In Millions, Except Per Share Data)*

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **SALES** | *6, 25, 33* | **P941,193** | P725,797 | P1,020,502 |
| **COST OF SALES** | *26, 34* | **746,050** | 576,449 | 818,815 |
| **GROSS PROFIT** | | **195,143** | 149,348 | 201,687 |
| **SELLING AND ADMINISTRATIVE EXPENSES** | *27, 34* | **(77,991)** | (77,872) | (85,972) |
| **INTEREST EXPENSE AND OTHER FINANCING CHARGES** | *19, 21, 30, 33, 34, 35* | **(49,265)** | (52,035) | (56,019) |
| **INTEREST INCOME** | *7, 31, 33, 35* | **3,591** | 6,182 | 10,675 |
| **EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES** | *11, 23* | **1,040** | 417 | 105 |
| **GAIN (LOSS) ON SALE OF PROPERTY AND EQUIPMENT** | *13, 15, 18* | **167** | (491) | (237) |
| **OTHER INCOME (CHARGES)** - Net | *4, 5, 32, 34, 39, 40* | **(6,733)** | 11,861 | 6,848 |
| **INCOME BEFORE INCOME TAX** | | **65,952** | 37,410 | 77,087 |
| **INCOME TAX EXPENSE** | *23, 42* | **17,793** | 15,531 | 28,513 |
| **NET INCOME** | | **P48,159** | P21,879 | P48,574 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | | **P13,925** | P2,973 | P21,329 |
| Non-controlling interests | *5, 23, 24* | **34,234** | 18,906 | 27,245 |
| | | **P48,159** | P21,879 | P48,574 |
| **Basic/Diluted Earnings (Loss) Per Common Share Attributable to Equity Holders of the Parent Company** | *37* | **P2.48** | (P1.66) | P5.93 |

*See Notes to the Consolidated Financial Statements.*

SAN MIGUEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

*(In Millions)*

| | *Note* | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| **NET INCOME** | | **P48,159** | P21,879 | P48,574 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Equity reserve for retirement plan | *35* | **2,143** | (357) | (3,382) |
| Income tax benefit (expense) | *23* | **(1,084)** | 126 | 971 |
| Net gain (loss) on financial assets at fair value through other comprehensive income | *12* | **1** | (172) | (44) |
| Income tax expense | | **(14)** | (1) | (6) |
| Share in other comprehensive income (loss) of associates and joint ventures - net | *11* | **10** | (132) | (25) |
| | | **1,056** | (536) | (2,486) |
| **Items that may be reclassified to profit or loss** | | | | |
| Gain (loss) on exchange differences on translation of foreign operations | | **5,412** | (4,448) | (3,128) |
| Net gain on financial assets at fair value through other comprehensive income | *12* | **-** | 1 | 11 |
| Income tax expense | | **-** | - | (1) |
| Net gain (loss) on cash flow hedges | *40* | **268** | (23) | (679) |
| Income tax benefit (expense) | | **(100)** | 5 | 192 |
| | | **5,580** | (4,465) | (3,605) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** - Net of tax | | **6,636** | (5,001) | (6,091) |
| **TOTAL COMPREHENSIVE INCOME** - Net of tax | | **P54,795** | P16,878 | P42,483 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | | **P19,387** | (P816) | P16,839 |
| Non-controlling interests | *5, 24* | **35,408** | 17,694 | 25,644 |
| | | **P54,795** | P16,878 | P42,483 |

*See Notes to the Consolidated Financial Statements.*

SAN MIGUEL CORPORATION AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
# FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
*(In Millions)*

| | | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Capital Securities | | Equity Reserves | | | | | | | | | | | |
| | | Capital Stock | | Additional | Senior Perpetual | Redeemable | Reserve for | | | | Other | Retained Earnings | | Treasury Stock | | | Non- | |
| | Note | Common | Preferred | Paid-in Capital | Capital Securities | Perpetual Securities | Retirement Plan | Hedging Reserve | Fair Value Reserve | Translation Reserve | Equity Reserve | Appro-priated | Unappro-priated | Common | Preferred | Total | Controlling Interests | Total Equity |
| **As at January 1, 2021** | | **P16,443** | **P10,187** | **P177,719** | **P24,211** | **P3,960** | **(P5,102)** | **(P654)** | **P383** | **(P2,218)** | **P17,722** | **P60,155** | **P162,204** | **(P67,093)** | **(P43,053)** | **P354,864** | **P300,224** | **P655,088** |
| Gain on exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | 4,455 | - | - | - | - | - | 4,455 | 957 | 5,412 |
| Share in other comprehensive income (loss) of associates and joint ventures - net | 11 | - | - | - | - | - | 101 | - | (96) | 1 | - | - | - | - | - | 6 | 4 | 10 |
| Net gain on cash flow hedges | 40 | - | - | - | - | - | - | 120 | - | - | - | - | - | - | - | 120 | 48 | 168 |
| Net gain (loss) on financial assets at fair value through other comprehensive income | 12 | - | - | - | - | - | - | - | (15) | - | - | - | - | - | - | (15) | 2 | (13) |
| Equity reserve for retirement plan | 23, 35 | - | - | - | - | - | 896 | - | - | - | - | - | - | - | - | 896 | 163 | 1,059 |
| Other comprehensive income (loss) | | - | - | - | - | - | 997 | 120 | (111) | 4,456 | - | - | - | - | - | 5,462 | 1,174 | 6,636 |
| Net income | | - | - | - | - | - | - | - | - | - | - | - | 13,925 | - | - | 13,925 | 34,234 | 48,159 |
| Total comprehensive income (loss) | | - | - | - | - | - | 997 | 120 | (111) | 4,456 | - | - | 13,925 | - | - | 19,387 | 35,408 | 54,795 |
| Redemption of Subseries "2-C", Subseries "2-E" and Subseries "2-G" preferred shares | 24 | - | - | - | - | - | - | - | - | - | - | - | - | - | (34,217) | (34,217) | - | (34,217) |
| Net addition (reduction) to non-controlling interests and others | 5, 11, 24 | - | - | - | - | - | (32) | - | (3) | 27 | (1,449) | - | (604) | - | - | (2,061) | 47,009 | 44,948 |
| Appropriations - net | 24 | - | - | - | - | - | - | - | - | - | - | 6,475 | (6,475) | - | - | - | - | - |
| Cash dividends and distributions: | 36 | | | | | | | | | | | | | | | | | |
| Common | | - | - | - | - | - | - | - | - | - | - | - | (3,337) | - | - | (3,337) | (10,170) | (13,507) |
| Preferred | | - | - | - | - | - | - | - | - | - | - | - | (6,002) | - | - | (6,002) | (2,400) | (8,402) |
| Senior perpetual capital securities | | - | - | - | - | - | - | - | - | - | - | - | (1,804) | - | - | (1,804) | (14,806) | (16,610) |
| Redeemable perpetual securities | | - | - | - | - | - | - | - | - | - | - | - | (200) | - | - | (200) | - | (200) |
| Undated subordinated capital securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (656) | (656) |
| **As at December 31, 2021** | 24 | **P16,443** | **P10,187** | **P177,719** | **P24,211** | **P3,960** | **(P4,137)** | **(P534)** | **P269** | **P2,265** | **P16,273** | **P66,630** | **P157,707** | **(P67,093)** | **(P77,270)** | **P326,630** | **P354,609** | **P681,239** |

*Forward*

| | | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Capital Securities | | Equity Reserves | | | | | Retained Earnings | | | | | | |
| | | Capital Stock | | Additional | Senior Perpetual | Redeemable | Reserve for | | | | Other | | | Treasury Stock | | | Non-Controlling | |
| | Note | Common | Preferred | Paid-in Capital | Capital Securities | Perpetual Securities | Retirement Plan | Hedging Reserve | Fair Value Reserve | Translation Reserve | Equity Reserve | Appro-priated | Unappro-priated | Common | Preferred | Total | Interests | Total Equity |
| As at January 1, 2020 | | P16,443 | P10,187 | P177,938 | P - | P - | (P4,850) | (P614) | P548 | P982 | P18,324 | P56,689 | P173,092 | (P67,093) | (P49,190) | P332,456 | P241,939 | P574,395 |
| Loss on exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | - | (3,211) | - | - | - | - | - | (3,211) | (1,237) | (4,448) |
| Share in other comprehensive income (loss) of associates and joint ventures - net | *11* | - | - | - | - | - | (69) | - | 7 | (53) | - | - | - | - | - | (115) | (17) | (132) |
| Net gain (loss) on cash flow hedges | *40* | - | - | - | - | - | - | (40) | - | - | - | - | - | - | - | (40) | 22 | (18) |
| Net loss on financial assets at fair value through other comprehensive income | *12* | - | - | - | - | - | - | - | (171) | - | - | - | - | - | - | (171) | (1) | (172) |
| Equity reserve for retirement plan | *35* | - | - | - | - | - | (252) | - | - | - | - | - | - | - | - | (252) | 21 | (231) |
| Other comprehensive loss | | - | - | - | - | - | (321) | (40) | (164) | (3,264) | - | - | - | - | - | (3,789) | (1,212) | (5,001) |
| Net income | | - | - | - | - | - | - | - | - | - | - | - | 2,973 | - | - | 2,973 | 18,906 | 21,879 |
| Total comprehensive income (loss) | | - | - | - | - | - | (321) | (40) | (164) | (3,264) | - | - | 2,973 | - | - | (816) | 17,694 | 16,878 |
| Issuance of capital securities | *24* | - | - | - | 24,211 | 14,662 | - | - | - | - | - | - | - | - | - | 38,873 | - | 38,873 |
| Purchase and cancellation of redeemable perpetual securities | *24* | - | - | - | - | (10,702) | - | - | - | - | - | - | (108) | - | - | (10,810) | - | (10,810) |
| Reissuance of treasury shares | *24* | - | - | (219) | - | - | - | - | - | - | - | - | - | - | 33,793 | 33,574 | - | 33,574 |
| Redemption of Series "1" and Subseries "2-D" preferred shares | *24* | - | - | - | - | - | - | - | - | - | - | - | - | - | (27,656) | (27,656) | - | (27,656) |
| Net addition (reduction) to non-controlling interests and others | *5, 11, 24* | - | - | - | - | - | 69 | - | (1) | 64 | (602) | (2,795) | 2,135 | - | - | (1,130) | 62,586 | 61,456 |
| Appropriations - net | *24* | - | - | - | - | - | - | - | - | - | - | 6,261 | (6,261) | - | - | - | - | - |
| Cash dividends and distributions: | *36* | | | | | | | | | | | | | | | | | |
| Common | | - | - | - | - | - | - | - | - | - | - | - | (3,337) | - | - | (3,337) | (9,967) | (13,304) |
| Preferred | | - | - | - | - | - | - | - | - | - | - | - | (6,052) | - | - | (6,052) | (1,915) | (7,967) |
| Redeemable perpetual securities | | - | - | - | - | - | - | - | - | - | - | - | (238) | - | - | (238) | - | (238) |
| Senior perpetual capital securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (8,666) | (8,666) |
| Undated subordinated capital securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,447) | (1,447) |
| As at December 31, 2020 | *24* | P16,443 | P10,187 | P177,719 | P24,211 | P3,960 | (P5,102) | (P654) | P383 | (P2,218) | P17,722 | P60,155 | P162,204 | (P67,093) | (P43,053) | P354,864 | P300,224 | P655,088 |

*Forward*

| | | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Equity Reserves | | | | | Retained Earnings | | | | | | |
| | | Capital Stock | | Additional Paid-in | Reserve for Retirement | Hedging | Fair Value | Translation | Other Equity | Appro- | Unappro- | Treasury Stock | | | Non-controlling | Total |
| | *Note* | Common | Preferred | Capital | Plan | Reserve | Reserve | Reserve | Reserve | priated | priated | Common | Preferred | Total | Interests | Equity |
| As at January 1, 2019, As adjusted | | P16,443 | P10,187 | P177,938 | (P2,990) | (P173) | P514 | P3,239 | P20,923 | P72,820 | P146,757 | (P67,093) | (P42,408) | P336,157 | P173,368 | P509,525 |
| Loss on exchange differences on translation of foreign operations | | - | - | - | - | - | - | (2,261) | - | - | - | - | - | (2,261) | (867) | (3,128) |
| Share in other comprehensive income (loss) of associates and joint ventures - net | *11* | - | - | - | (113) | - | 77 | 4 | - | - | - | - | - | (32) | 7 | (25) |
| Net loss on cash flow hedges | *40* | - | - | - | - | (441) | - | - | - | - | - | - | - | (441) | (46) | (487) |
| Net gain (loss) on financial assets at fair value through other comprehensive income | *12* | - | - | - | - | - | (43) | - | - | - | - | - | - | (43) | 3 | (40) |
| Equity reserve for retirement plan | *35* | - | - | - | (1,713) | - | - | - | - | - | - | - | - | (1,713) | (698) | (2,411) |
| Other comprehensive income (loss) | | - | - | - | (1,826) | (441) | 34 | (2,257) | - | - | - | - | - | (4,490) | (1,601) | (6,091) |
| Net income | | - | - | - | - | - | - | - | - | - | 21,329 | - | - | 21,329 | 27,245 | 48,574 |
| Total comprehensive income (loss) | | - | - | - | (1,826) | (441) | 34 | (2,257) | - | - | 21,329 | | - | 16,839 | 25,644 | 42,483 |
| Redemption of Subseries "2-B" preferred shares | *24* | - | - | - | - | - | - | - | - | - | - | - | (6,782) | (6,782) | - | (6,782) |
| Net addition (reduction) to non-controlling interests and others | *5, 11, 24* | - | - | - | (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) |
| Senior perpetual capital securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,430) | (3,430) |
| Undated subordinated capital securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,183) | (3,183) |
| 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 |

*See Notes to the Consolidated Financial Statements.*

SAN MIGUEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

*(In Millions)*

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | | **P65,952** | P37,410 | P77,087 |
| Adjustments for: | | | | |
| Interest expense and other financing charges | *30* | **49,265** | 52,035 | 56,019 |
| Depreciation, amortization and others - net | *13, 14, 15, 17, 18, 28, 32* | **46,467** | 27,723 | 35,235 |
| Interest income | *31* | **(3,591)** | (6,182) | (10,675) |
| Equity in net earnings of associates and joint ventures | *11* | **(1,040)** | (417) | (105) |
| Loss (gain) on sale of property and equipment | *13, 15, 18* | **(167)** | 491 | 237 |
| Operating income before working capital changes | | **156,886** | 111,060 | 157,798 |
| Changes in noncash current assets, certain current liabilities and others | *38* | **(43,608)** | 12,823 | 16,390 |
| Cash generated from operations | | **113,278** | 123,883 | 174,188 |
| Interest and other financing charges paid | | **(48,612)** | (54,909) | (58,833) |
| Income taxes paid | | **(14,528)** | (16,042) | (21,868) |
| Net cash flows provided by operating activities | | **50,138** | 52,932 | 93,487 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to property, plant and equipment | *13* | **(74,421)** | (60,629) | (65,640) |
| Additions to intangible assets | *17* | **(26,007)** | (16,618) | (17,106) |
| Additions to advances to contractors and suppliers | *18* | **(16,067)** | (4,855) | (13,601) |
| Decrease (increase) in other noncurrent assets and others | *18* | **(7,053)** | 358 | (16,796) |
| Additions to investment property | *15* | **(6,546)** | (8,711) | (9,386) |
| Additions to investments in equity and debt instruments | *12* | **(6,101)** | (70) | (71) |
| Additions to investments and advances | *11* | **(5,223)** | (4,001) | (2,098) |
| Proceeds from the redemption and disposal of investments in equity and debt instruments | *12* | **6,509** | 108 | 94 |
| Interest received | | **3,313** | 6,402 | 10,549 |
| Dividends received | *12* | **2,674** | 1,344 | 1,886 |
| Proceeds from sale of property and equipment | *13, 15, 18* | **1,350** | 912 | 871 |
| Cash and cash equivalents of a consolidated (deconsolidated) subsidiary | *5* | **-** | 1,053 | (626) |
| Acquisitions of subsidiaries, net of cash and cash equivalents acquired | *38* | **-** | - | (1,408) |
| Net cash flows used in investing activities | | **(127,572)** | (84,707) | (113,332) |

*Forward*

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Short-term borrowings | *38* | **P760,746** | P813,187 | P1,405,972 |
| Long-term borrowings | *38* | **140,777** | 160,437 | 158,746 |
| Payments of: | | | | |
| Short-term borrowings | *38* | **(711,147)** | (841,775) | (1,416,504) |
| Long-term borrowings | *38* | **(113,419)** | (58,913) | (85,968) |
| Net proceeds from issuance of capital securities and preferred shares of subsidiaries | *24* | **61,899** | 67,799 | 85,733 |
| Redemption of preferred shares | *24* | **(34,217)** | (27,656) | (6,782) |
| Cash dividends and distributions paid to non-controlling shareholders | *38* | **(27,555)** | (21,777) | (20,065) |
| Payments of lease liabilities | *38* | **(26,151)** | (24,825) | (20,673) |
| Redemption of capital securities and preferred shares of subsidiaries | *24* | **(17,459)** | (15,000) | (22,305) |
| Cash dividends and distributions paid | *36, 38* | **(11,755)** | (9,731) | (10,587) |
| Decrease in non-controlling interests' share in the net assets of subsidiaries and others | *24* | **(623)** | (1,526) | (811) |
| Proceeds from reissuance of treasury shares | *24* | **-** | 33,588 | - |
| Net proceeds from issuance of capital securities | *24* | **-** | 28,171 | - |
| Net cash flows provided by financing activities | | **21,096** | 101,979 | 66,756 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **9,159** | (9,452) | (3,604) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(47,179)** | 60,752 | 43,307 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | *7* | **347,209** | 286,457 | 243,150 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | *7* | **P300,030** | P347,209 | P286,457 |

*See Notes to the Consolidated Financial Statements.*

## 1. Reporting Entity

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

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

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

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

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

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

## 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 (IFRS) 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 10, 2022.

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 |
|---|---|---|---|
| | **2021** | 2020 | |
| **Food and Beverage Business** | | | |
| San Miguel Food and Beverage, Inc. (SMFB) 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 (PTSMFI), San Miguel Super Coffeemix Co., Inc., The Purefoods-Hormel Company, Inc. (PF-Hormel), and San Miguel Foods International, Limited and subsidiary, San Miguel 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 Djakarta Tbk and subsidiary}] | | | |
| Ginebra San Miguel Inc. (GSMI) and subsidiaries [including Distileria Bago, Inc., Ginebra San Miguel International Ltd., GSM International Holdings Limited and Global Beverages Holdings Limited] | | | |
| **Packaging Business** | | | |
| San Miguel Yamamura Packaging Corporation (SMYPC) and subsidiaries [including SMC Yamamura Fuso Molds Corporation (SYFMC) and Can Asia, Inc.] | **65.00** | 65.00 | Philippines |
| San Miguel Yamamura Packaging International Limited (SMYPIL) and subsidiaries [including San Miguel Yamamura Phu Tho Packaging Company Limited[(a)], San Miguel Yamamura Glass (Vietnam) Limited and San Miguel Yamamura Haiphong Glass Company Limited., Zhaoqing San Miguel Yamamura Glass Company Limited[(a)], Foshan San Miguel Yamamura Packaging Company Limited and subsidiary[(a)], 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 and subsidiary, Foshan Cospak Packaging Co Ltd., SMYV Pty Ltd, SMYB Pty Ltd, SMYP Pty Ltd, Cospak Limited, SMYBB Pty Ltd, SMYJ Pty Ltd, Wine Brothers Australia Pty Ltd and Vinocor Ltd.}] | **65.00** | 65.00 | British Virgin Islands (BVI) |
| Mindanao Corrugated Fibreboard, Inc. | **100.00** | 100.00 | Philippines |

*Forward*

| | Percentage of Ownership | | Country of Incorporation |
|---|---|---|---|
| | **2021** | 2020 | |
| **Energy Business** | | | |
| SMC Global Power Holdings Corp. (SMC Global) and subsidiaries [including San Miguel Energy Corporation (SMEC) and subsidiaries, South Premiere Power Corp. (SPPC), Strategic Power Devt. Corp. (SPDC), San Miguel Electric Corp. (SMELC), SMC PowerGen Inc., Universal Power Solutions, Inc. (UPSI), SMC Consolidated Power Corporation (SCPC), San Miguel Consolidated Power Corporation (SMCPC), Central Luzon Premiere Power Corp., Lumiere Energy Technologies, Inc. (LETI), PowerOne Ventures Energy Inc. (PVEI), SMCGP Masin Pte. Ltd. and subsidiaries, Masinloc Power Partners Co. Ltd. (MPPCL) and subsidiary, Albay Power and Energy Corp. (APEC), SMCGP Philippines Energy Storage Co. Ltd. (SPESC) and Mariveles Power Generation Corporation (MPGC)] | **100.00** | 100.00 | Philippines |
| **Fuel and Oil Business** | | | |
| SEA Refinery Corporation (SRC) and subsidiary: Petron Corporation (Petron) and subsidiaries [including Petron Marketing Corporation, Petron Freeport Corporation, Overseas Ventures Insurance Corporation Ltd.[(a)], 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 |
| **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. and subsidiary, SMC TPLEX Corporation (SMCTC) (formerly Private Infra Dev Corporation), TPLEX Operations & Maintenance Corp., Trans Aire Development Holdings Corp. (TADHC), SMC NAIAX Corporation (SMC NAIAX; formerly Vertex Tollways Devt. Inc.), Universal LRT Corporation (BVI) Limited (ULC BVI), SMC Mass Rail Transit 7 Inc. (SMC MRT 7), ULCOM Company, Inc., SMC Infraventures Inc. and subsidiary, SMC Skyway Stage 4 Corporation (MMSS4; formerly 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 SMC Tollways Corporation (SMC Tollways; formerly Atlantic Aurum Investments Philippines Corporation) and subsidiaries {including Stage 3 Connector Tollways Holding Corporation (S3HC) and subsidiary, SMC Skyway Stage 3 Corporation (MMSS3; formerly Citra Central Expressway Corp.) and SMC Skyway Corporation (SMC Skyway; formerly Citra Metro Manila Tollways Corporation) and subsidiary, Skyway O&M Corporation (SOMCO), SMC SLEX Holdings Company Inc. (SSHCI; formerly MTD Manila Expressways Inc.) and subsidiaries, Alloy Manila Toll Expressways, Inc. (AMTEX), Manila Toll Expressway Systems, Inc. (MATES) and SMC SLEX Inc. (SMC SLEX; formerly South Luzon Tollway Corporation)}, San Miguel Aerocity Inc. doing business under the name and style of "Manila International Airport" (SMAI) and Pasig River Expressway Corporation (PREC)] | **100.00** | 100.00 | Philippines |

*Forward*

| | Percentage of Ownership | | Country of Incorporation |
|---|---|---|---|
| | **2021** | 2020 | |
| **Cement Business** | | | |
| San Miguel Equity Investments Inc. (SMEII) and subsidiaries[(a)] [including Northern Cement Corporation (NCC)[(b)], Southern Concrete Industries, Inc. (SCII; formerly Oro Cemento Industries Corporation) and First Stronghold Cement Industries Inc. (FSCII)] | **100.00** | 100.00 | Philippines |
| **Real Estate Business** | | | |
| San Miguel Properties, Inc. (SMPI) and subsidiaries[(a)] [including SMPI Makati Flagship Realty Corp. and Bright Ventures Realty, Inc.] | **99.97** | 99.96 | Philippines |
| Davana Heights Development Corporation (DHDC) and subsidiaries | **100.00** | 100.00 | Philippines |
| **Others** | | | |
| San Miguel International Limited and subsidiary, San Miguel Holdings Limited (SMHL) and subsidiaries [including SMYPIL and San Miguel Insurance Company, Ltd. (SMICL)] | **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 Integrated Logistics Services, Inc. (SMILSI) and subsidiary | **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 |
| Petrogen Insurance Corporation (Petrogen)[(c)] | **92.05** | 68.26 | Philippines |
| Anchor Insurance Brokerage Corporation (AIBC)[(a)] | **58.33** | 58.33 | Philippines |
| SMC Asia Car Distributors Corp. (SMCACDC) and subsidiaries[(a)] | **65.00** | 65.00 | Philippines |
| SMC Equivest Corporation (SMCEC) | **100.00** | 100.00 | Philippines |

*(a) The financial statements of these subsidiaries were audited by other auditors.*
*(b) Consolidated to SMEII effective August 24, 2020 (Note 5).*
*(c) Became a 92.05% owned subsidiary of the Parent Company and deconsolidated from Petron effective February 4, 2021 (Note 5).*

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

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

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

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

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

Non-controlling interests include the interests not held by the Parent Company in its subsidiaries as follows: SMFB, SMYPC, SMYPIL, Petron, SMCTC, TADHC, AMTEX, AAIBV, SMPI, SMCSLC, Petrogen, AIBC and SMCACDC in 2021 and 2020 (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 Amended Standard

Effective January 1, 2021, the Group has adopted Coronavirus Disease 2019 (COVID-19) - Related Rent Concessions (Amendments to PFRS 16, *Leases*) beyond June 30, 2021 and as a result, has accordingly changed its accounting policy. The optional practical expedient introduced in the 2020 amendments that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19 and which solely applies to reduction in lease payments originally due on or before June 30, 2021 has been extended to June 30, 2022. The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond June 30, 2021.

The adoption of the amended standard did not have a material effect on the consolidated financial statements.

Amended Standards Not Yet Adopted

A number of amended standards are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing the consolidated financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the consolidated financial statements.

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

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

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

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

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

The Group is currently performing detailed assessment of the potential effect of adopting the amendments and has yet to reasonably estimate the impact.

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

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

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

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

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

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

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

- Reference to the Conceptual Framework (Amendment to PFRS 3, *Business Combinations*). The amendments:

  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;

  - added a requirement that, for transactions and other events within the scope of PAS 37 or International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and

  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

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

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

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

In November 2021, the IASB issued the Exposure Draft, Non-Current Liabilities with Covenants after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend PAS 1 as follows:

- Conditions which the entity must comply within 12 months after the reporting period will have no effect on the classification as current or non-current.

- Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within 12 months.

- Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.

- The effective date of the amendments will be deferred to no earlier than January 1, 2024.

Comments on the Exposure Draft is due on March 21, 2022.

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments clarify that accounting estimates are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy. Developing an accounting estimate includes selecting a measurement technique (estimate or valuation technique) and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in the inputs or measurement techniques are changes in accounting estimates.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The amendments apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments*). The key amendments to PAS 1 include requiring entities to disclose material accounting policies rather than significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are material to the financial statements. The amendments to PFRS Practice Statement 2 provide guidance and examples on the application of materiality to accounting policy disclosures.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments require an entity to recognize deferred tax on transactions, such as leases for the lessee and decommissioning obligations, that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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

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

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

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

  On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two years after its effective date as decided by the IASB. 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. There is also a transition option allowing presentation of comparative information about financial assets using a classification overlay approach on a basis that is more consistent with how PFRS 9 will be applied in future reporting periods. Early application is permitted for entities that apply PFRS 9 and PFRS 15, *Revenue from Contracts with Customers*, on or before the date of initial application of PFRS 17.

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

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

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

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

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

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

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

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

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

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

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

The business model refers to how the Group manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

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

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

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

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

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

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

Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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

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

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

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

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

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

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

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

The Group has outstanding derivatives accounted for as cash flow hedge as at December 31, 2021 and 2020 (Note 40).

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

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

(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(c) the hybrid or combined instrument is not recognized as at FVPL.

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

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

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

The Group has embedded derivatives as at December 31, 2021 and 2020 (Note 40).

Inventories

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

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

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

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

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

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

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

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

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 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.

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.

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

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

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

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

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

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

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

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

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

  - represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

  - is not larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

| | Number of Years |
|---|---|
| Land improvements | 5 - 50 |
| Buildings and improvements | 2 - 50 |
| Power plants | 5 - 43 |
| Refinery and plant equipment | 4 - 35 |
| Service stations and other equipment | 3 - 33 |
| Equipment, furniture and fixtures | 2 - 55 |
| Mine properties | 55 |
| Leasehold improvements | 2 - 50 or term of the lease, whichever is shorter |

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

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

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

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

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

Leases

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

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

- the Group has the right to direct the use of the identified asset.

*Group as Lessee*

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

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

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

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

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

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

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

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

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

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

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

*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.

Investment Property

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

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

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

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

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

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

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

Intangible Assets

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

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

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes

in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

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

| | Number of Years |
|---|---|
| Toll road concession rights | 28 - 36 |
| Airport concession rights | 25 - 50 |
| Power concession right | 25 |
| Water concession right | 30 |
| Computer software and licenses | 2 - 10 |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- *Toll Road Concession Rights.* The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects:

  - South Luzon Expressway (SLEX);
  - Ninoy Aquino International Airport (NAIA) Expressway;
  - Metro Manila Skyway (Skyway);
  - Tarlac-Pangasinan-La Union Toll Expressway (TPLEX);
  - Southern Tagalog Arterial Road (STAR); and
  - North Luzon Expressway (NLEX) - SLEX Link (Skyway Stage 3).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Stock and Additional Paid-in Capital
*Common Shares*
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

Foreign Currency

*Foreign Currency Translations*

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

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

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

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

*Foreign Operations*

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

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

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

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

Taxes

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

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

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of tax included.

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

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

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

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

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

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

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

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

Basic and Diluted Earnings Per Common Share (EPS)
Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares and distributions to holders of RPS and SPCS, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

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

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

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods.

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

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

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

## 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.* 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.

*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 P1,496, P1,382 and P1,751 in 2021, 2020 and 2019, respectively (Notes 32 and 34).

*Determining the Lease Term of Contracts with Renewal Options - Group as Lessee.* 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.* 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 P94,992 and P117,037 as at December 31, 2021 and 2020 respectively (Notes 34, 38, 39 and 40).

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

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

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

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

a. *Airport Concession Rights*

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

(i) The Airport Project cost is recognized as part of intangible assets as the construction progresses. The cost-to-cost method was used as management believes that the actual cost of construction is most relevant in determining the amount that should be recognized as cost of the intangible asset at each reporting date as opposed to cost plus and other methods of percentage-of-completion.

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

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

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

b. *Toll Road Concession Rights*. The Group's toll road concession rights represent the costs of construction and development, including borrowing costs, if any, during the construction period of the following projects: (i) SLEX; (ii) NAIA Expressway; (iii) Skyway; (iv) TPLEX; (v) STAR; and (vi) Skyway Stage 3.

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

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

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

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

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

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

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

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

*Classification of Redeemable Preferred Shares.* Based on the features of the preferred shares of TADHC, particularly on mandatory redemption, management determined that the shares are, in substance, financial liabilities. Accordingly, these were classified as part of "Accounts payable and accrued expenses" account in the consolidated statements of financial position as at December 31, 2021 and 2020, respectively (Note 20).

*Evaluating Control over its Investees.* Determining whether the Group has control in an investee requires significant judgment. The Group receives substantially all of the returns related to BPI's operations and net assets and has the current ability to direct BPI's activities that most significantly affect the returns. The Group controls BPI since it is exposed, and has rights, to variable returns from its involvement with BPI and has the ability to affect those returns through such power over BPI.

*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 Manila North Harbour Port, Inc. (MNHPI) as joint ventures (Note 11).

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

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

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

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

Estimates and Assumptions

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

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

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

Trade receivables written off amounted to P186 and P138 in 2021 and 2020, respectively. The allowance for impairment losses on trade receivables amounted to P4,094 and P4,522 as at December 31, 2021 and 2020, respectively. The carrying amount of trade receivables amounted to P97,013 and P71,134, as at December 31, 2021 and 2020, 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 2021 and 2020.

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

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Other Financial Assets at Amortized Cost** | | | |
| Cash and cash equivalents (excluding cash on hand) | *7, 39* | **P298,783** | P345,425 |
| Other current receivables - net (included under "Trade and other receivables - net" account) | *8* | **64,795** | 53,235 |
| Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | *10, 12, 39, 40* | **577** | 255 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | *18, 39, 40* | **32,310** | 28,095 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | *10, 18, 39, 40* | **12,965** | 7,890 |

The allowance for impairment losses on other current receivables, included as part of "Trade and other receivables - net" account and noncurrent receivables and deposits included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position, amounted to P9,174 and P572, respectively, as at December 31, 2021, and P9,219 and P606, respectively, as at December 31, 2020 (Notes 8 and 18).

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

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

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

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

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

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

*Write-down of Inventory*. The Group writes-down the cost of inventory to net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The write-down of inventories amounted to P1,505 and P1,624 as at December 31, 2021 and 2020, respectively (Note 9).

The carrying amounts of inventories amounted to P141,209 and P102,822 as at December 31, 2021 and 2020, respectively (Note 9).

*Estimated Useful Lives of Property, Plant and Equipment, Right-of-Use Assets, Investment Property and Deferred Containers*. The Group estimates the useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers would increase the recorded cost of sales and selling and administrative expenses and decrease noncurrent assets.

Except for refinery and plant equipment and certain power plant assets used in production of fuel, there is no change in estimated useful lives of property, plant and equipment, right-of-use assets, investment property and deferred containers based on management's review at the reporting date.

Starting January 1, 2020, the Group adopted the UOP method of accounting for depreciation of refinery and plant equipment and certain power plant assets used in production of fuel. The UOP method closely reflects the expected pattern of consumption of the future economic benefits embodied in these assets. Depreciation of said assets is computed using the expected consumption over the estimated useful lives of these assets. Previously, depreciation was computed using the straight-line method over the estimated useful lives of the assets.

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P582,092 and P525,035 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P243,297 and P219,246 as at December 31, 2021 and 2020, respectively (Note 13).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P163,446 and P169,285 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P20,308 and P14,228 as at December 31, 2021 and 2020, respectively (Note 14).

Investment property, net of accumulated depreciation and amortization amounted to P69,833 and P60,686 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of investment property amounted to P19,470 and P16,838 as at December 31, 2021 and 2020, respectively (Note 15).

Deferred containers, net of accumulated amortization, included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P19,800 and P19,749 as at December 31, 2021 and 2020, respectively. Accumulated amortization of deferred containers amounted to P14,714 and P13,178 as at December 31, 2021 and 2020, respectively (Note 18).

*Estimated Useful Lives of Intangible Assets*. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives, net of accumulated amortization, included as part of "Other intangible assets - net" account in the consolidated statements of financial position amounted to P188,873 and P166,907 as at December 31, 2021 and 2020, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P49,717 and P43,643, as at December 31, 2021 and 2020, respectively (Note 17).

*Estimated Useful Lives of Intangible Assets - Concession Rights.* The Group estimates the useful lives of airport, toll road, port, power and water concession rights based on the period over which the assets are expected to be available for use. The Group has not included any renewal period on the basis of uncertainty of the probability of securing renewal contract at the end of the original contract term as at the reporting date.

The amortization period and method are reviewed when there are changes in the expected term of the contract or the expected pattern of consumption of future economic benefits embodied in the asset.

The combined carrying amounts of toll road, airport, power and water concession rights amounted to P178,833 and P158,919 as at December 31, 2021 and 2020, 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 P130,081 and P129,733 as at December 31, 2021 and 2020, respectively (Note 17).

The combined carrying amounts of licenses and trademarks and brand names amounted to P2,286 and P2,806 as at December 31, 2021 and 2020, 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.

*Estimating Coal Reserves.* Coal reserve estimates are based on measurements and geological interpretation obtained from natural outcrops, trenches, tunnels and drill holes. In contrast with "coal resource" estimates, profitability of mining the coal during a defined operating period or "mine-life" is a necessary attribute of "coal reserve".

The Philippine Department of Energy (DOE) is the government agency authorized to implement coal operating contracts (COC) and regulate the operation of contractors pursuant to DOE Circular No. 81-11-10: Guidelines for Coal Operations in the Philippines. For the purpose of the five-year development and production program required for each COC, the agency classifies coal reserves, according to increasing degree of uncertainty, into: (i) positive, (ii) probable and (iii) inferred. The DOE also prescribes the use of "total in-situ reserves" as the sum of positive reserves and two-thirds of probable reserve; and "mineable reserve" as 60% of total in-situ reserve for underground, and 85% for surface (including open-pit) coal mines.

*Recoverability of Deferred Exploration and Development Costs.* A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities related to coal are all in the exploratory stages as at December 31, 2021. 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, 2021 and 2020.

Deferred exploration and development costs included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position amounted to P719 and P715 as at December 31, 2021 and 2020, 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 P17,141 and P20,946 as at December 31, 2021 and 2020, respectively (Note 23).

*Impairment of Non-financial Assets.* PFRS requires that an impairment review be performed on investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

Accumulated impairment losses on property, plant and equipment, right-of-use assets and investment property, other intangible assets with finite useful lives and deferred containers amounted to P15,490 and P14,411 as at December 31, 2021 and 2020, respectively (Notes 13, 14, 15, 17 and 18).

The combined carrying amounts of investments and advances, property, plant and equipment, right-of-use assets, investment property, biological assets - net of current portion, other intangible assets with finite useful lives, deferred containers, deferred exploration and development costs and idle assets amounted to P1,068,884 and P982,815 as at December 31, 2021 and 2020, 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 P30,539 and P31,617 as at December 31, 2021 and 2020, 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 1.85% to 12.64% and 3.21% to 12.64% as at December 31, 2021 and 2020, respectively, depending on the life of the capitalized costs. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in future periods.

The ARO amounted to P3,668 and P3,735 as at December 31, 2021 and 2020, respectively (Notes 20 and 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, 2021 and 2020 pertains to the present value of the annual franchise fee payable to the ROP over the concession period. The recognition of the present value of the IRO is temporarily lodged in CIP - airport concession arrangements until the completion of the Airport Project.

The present values of the annual franchise fee and IRO were determined based on the future value of the obligations discounted at the Group's internal borrowing rate which is believed to be a reasonable approximation of the applicable credit-adjusted risk-free market borrowing rate.

A significant change in such internal borrowing rate used in discounting the estimated cost would result in a significant change in the amount of liabilities recognized with a corresponding effect in profit or loss.

The present value of the annual franchise fees payable to the ROP over 25 years discounted using the 8% internal borrowing rates in 2021 and 2020, included as part of "Airport concession right" under "Other intangible assets - net" account amounted to P57 and P59 as at December 31, 2021 and 2020, 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 P16 and P74 in 2021 and P13 and P74 in 2020, respectively (Notes 20 and 22).

*Present Value of Mine Rehabilitation Obligation (MRO) and Decommissioning.* The Group has MRO arising from NCC's mining operations. Determining MRO requires estimation of the costs of dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closing plant and waste sites, and restoring, reclaiming and revegetating affected areas. The estimated rehabilitation costs are then discounted using a discount rate that reflects current market assessments and the risks specific to the liability. Discount rate used by the Group as at December 31, 2021 and 2020 was 7.04%. The ultimate cost of MRO and decommissioning is uncertain, and cost estimates can vary in response to many factors including estimates of the extent and costs of rehabilitation activities, changes in the relevant legal requirements, emergence of new restoration techniques or experience, cost increases as compared to the inflation rates, and changes in discount rates. The expected timing of expenditure can also change in response to changes in quarry reserves or production rates. These uncertainties may result in future actual expenditure different from the amounts currently provided. As a result, there could be significant adjustments in provision for MRO and decommissioning, which would affect future financial results.

Provision for MRO and decommissioning presented as part of "Other noncurrent liabilities" account amounted to P47 and P46 as at December 31, 2021 and 2020, respectively (Note 22).

*Percentage-of-Completion - Airport and Toll Road Concession Arrangements.* The Group determines the percentage-of-completion of the contract by computing the proportion of actual contract costs incurred to date, to the latest estimated total airport and toll road project cost. The Group reviews and revises, when necessary, the estimate of airport and toll road project cost as it progresses, to appropriately adjust the amount of construction cost and revenue recognized at the end of each reporting period. Construction revenue and construction costs, reported as part of "Other income (charges) - net" account in the consolidated statements of income, amounted to P29,769, P22,747 and P25,386 as at December 31, 2021, 2020 and 2019, respectively (Note 32).

*Accrual for Repairs and Maintenance - Toll Road Concession Arrangements.* The Group recognizes accruals for repairs and maintenance based on estimates of periodic costs, generally estimated to be every 5 to 12 years as at December 31, 2021 and 2020, or the expected period to restore the toll road facilities to a level of serviceability

and to maintain its good condition before the turnover to the ROP. This is based on the best estimate of management to be the amount expected to be incurred to settle the obligation, discounted using a pre-tax rate, ranging from 1.66% to 4.88% and 1.7% to 3.97% as at December 31, 2021 and 2020, respectively, that reflects the current market assessment of the time value of money.

The accrual for repairs and maintenance, included as part of "IRO" under "Other noncurrent liabilities" account in the consolidated statements of financial position, amounted to P698 and P656 as at December 31, 2021 and 2020, respectively (Note 22).

The current portion included as part of "Accounts payable and accrued expenses" account amounted to P419 and P412 as at December 31, 2021 and 2020, respectively (Note 20).

## 5. Investments in Subsidiaries

The following are the developments relating to the Parent Company's investments:

Infrastructure

- SMHC

  On November 27, 2020, the BOD and stockholders of SMHC approved the additional increase in its authorized capital stock from P71,500 divided into 71,500,000 common shares to P91,500 divided into 91,500,000 common shares, both with a par value of P1,000.00 per common share. On the same date, SMHC and the Parent Company executed a Subscription Agreement to subscribe to 10,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P15,000 or P1,500.00 per common share. The Parent Company paid P6,606 in 2020, while the remaining balance of the subscription price amounting to P8,394 was paid in 2021.

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

  On June 30, 2021, SMHC and the Parent Company executed a Subscription Agreement to subscribe to an additional 10,000,000 common shares for a total subscription price of P15,000 or P1,500.00 per common share, which was fully paid in 2021.

  On December 17, 2021, the BOD and stockholders of SMHC approved the additional increase in its authorized capital stock from P91,500 divided into 91,500,000 common shares to P106,500 divided into 106,500,000 common shares, both with a par value of P1,000.00 per common share. On the same date, SMHC and the Parent Company executed a Subscription Agreement to subscribe to an additional 5,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P7,500 or P1,500.00 per common share. The Parent Company paid P3,823 as at December 31, 2021.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on March 9, 2022 and still pending approval as at March 10, 2022.

- SMAI

  On December 27, 2021, SMAI and the Parent Company executed a Subscription Agreement to subscribe to 3,792,881,031 common shares of SMAI for a total subscription price of P7,586 or P2.00 per common share, which was fully paid in 2021.

  As at December 31, 2021, the Parent Company has 25.81% direct ownership interest in SMAI, in addition to the 74.19% indirect ownership interest through SMHC.

Packaging

- Merger of San Miguel Yamamura Asia Corporation (SMYAC) with SMYPC

  On September 12, 2019, the BOD of the Parent Company approved the merger of SMYAC with SMYPC, where SMYPC was the surviving entity.

On September 19, 2019, the merger was approved by the respective BOD and stockholders of SMYPC and SMYAC. On the same date, the BOD and stockholders of SMYPC resolved and approved to increase its authorized capital stock from P11,000 divided into 11,000,000 common shares to P20,000 divided into 20,000,000 common shares, both with a par value of P1,000.00 per common share. The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on October 25, 2019 and was approved on February 24, 2020.

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

On October 31, 2019, the Parent Company and SMYPC executed a subscription agreement whereby the Parent Company agreed to subscribe to 3,901,011 common shares from the increase in authorized capital stock of SMYPC.

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

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

On November 15, 2021, the Bureau of Internal Revenue (BIR) issued BIR Ruling No. S40M-426-2021 which confirmed the tax-free exchange of investment relative to the merger of SMYPC and SMYAC.

The merger of SMYPC and SMYAC is considered to be a business combination 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 interest method.

The assets and liabilities of the combining entities are reflected in the consolidated statement 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.

Real Estate

- SMPI

a) Subscription of Common Shares

On various dates in 2020, SMPI and the Parent Company executed Subscription Agreements to subscribe to a total of 241,393,750 common shares of SMPI for a total subscription price of P4,828 or P20.00 per common share. The Parent Company paid P4,092 in 2020, while the remaining balance of the subscription price amounting to P736 was paid in 2021.

On various dates in 2021, SMPI and the Parent Company executed Subscription Agreements to subscribe to a total of 168,783,058 common shares of SMPI for a total subscription price of P3,375 or P20.00 per common share. In 2021, the Parent Company paid P3,018.

b) Acquisition of Subsidiaries

On February 2, 2021, the Parent Company through SMPI acquired a total of 95,252 common shares, equivalent to 70% of the outstanding capital stock of Agricultural Investors, Inc., Unexplored Land Developers, Inc., Ocean-Side Maritime Enterprises, Inc., Labayug Air Terminals, Incorporated, Pura Electric Co., Inc., Punong Bayan Housing Development Corporation, Habagat Realty Development Incorporated and Spade One Resorts Corporation, for a total consideration of P3,500. The acquisition gave SMPI 70% ownership and control over these entities and consequently were consolidated to the Group effective February 2, 2021. The related advances for investments amounting to P2,975 was reclassified from "Investments and advances" to Investment in shares of stock of subsidiaries as part of the total consideration transferred (Note 11). SMPI fully paid the remaining balance of P525 in 2021.

The entities are Philippine companies engaged in the purchase, acquisition, development or use for investment, among others, of real and personal property, to the extent permitted by law.

The acquisition of the entities is accounted for as an asset acquisition since the assets and activities does not constitute a business as defined in PFRS 3.

On December 17, 2021, SMPI acquired a total of 8,165 additional common shares, equivalent to 6% of the outstanding capital stock of the entities, at a purchase price of P36,742.19 per share or P300, of which P150 was paid in 2021.

- DHDC

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

On February 3, 2021, DHDC and the Parent Company executed a Subscription Agreement to subscribe to a total of 30,000,000 common shares of DHDC for a total subscription price of P60 or P2.00 per common share, which was fully paid in 2021.

On June 1, 2021, the BOD and stockholders of DHDC approved the additional increase in its authorized capital stock from P2,100 divided into 2,100,000,000 common shares to P2,400 divided into 2,400,000,000 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 75,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P150 or P2.00 per common share. The subscription price was fully paid in 2021.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on September 10, 2021 and was approved on September 14, 2021.

On December 15, 2021, DHDC and the Parent Company executed a Subscription Agreement to subscribe to an additional 7,750,000 common shares of DHDC for a subscription price of P15 or P2.00 per share, which was fully paid in 2021.

Cement

- Merger of NCC and San Miguel Northern Cement, Inc. (SMNCI)

On March 3, 2021, the BOD and stockholders of NCC and SMNCI approved the plan of merger of NCC and SMNCI, with NCC as the surviving entity.

On June 14, 2021, the SEC approved the Articles and Plan of Merger executed by NCC and SMNCI, whereby the entire assets and liabilities of SMNCI will be transferred to and absorbed by NCC.

On the same date, the SEC approved the increase in the authorized capital stock of NCC which was filed on April 27, 2021.

On July 1, 2021, the effective date of the merger, NCC issued 131,835,212 common shares in favor of SMEII for a total amount of P9,834 as consideration for the net assets of SMNCI in accordance with the Plan of Merger. The shares were issued out of the increase in the authorized capital stock of NCC.

On October 6, 2021, the BIR issued BIR Ruling No. S40M-371-2021 which confirmed the tax-free exchange of investment relative to the merger of NCC and SMNCI.

The merger of NCC and SMNCI is considered to be a business combination 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 interest method.

The assets and liabilities of the combining entities are reflected in the consolidated statement 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.

- Consolidation of NCC

On June 12, 2020, the BOD and stockholders of NCC approved the amendment of the Articles of Incorporation of NCC relating to the reclassification of 194,000,000 common shares to Series "2" Preferred Shares, the option of the stockholders of the common shares to convert to Series "2" Preferred Shares and renaming the existing 3,000,000 preferred shares of NCC to Series "1" Preferred Shares. On August 6, 2020, SEC approved the amendment of the Articles of Incorporation of NCC to reflect the amendments.

On August 24, 2020, the stockholders of NCC which collectively own 65% of the common shares, exercised the option to convert their common shares to a total of 194,000,000 Series "2" Preferred Shares. SMEII did not exercise its option to convert its common shares to Series "2" Preferred Shares. With the conversion of the common shares, SMEII gained control of NCC, exercising 100% of voting rights.

NCC is primarily engaged in the business of manufacturing, developing, processing, exploiting, buying, selling, or otherwise dealing in such goods as cement and other goods of similar nature and/or other products.

As a result, SMEII recognized its investment in NCC at fair market value and the net assets of NCC was consolidated to SMEII as at August 24, 2020.

The following summarizes the recognized amount of assets acquired and liabilities assumed at the acquisition date:

| | *Note* | 2020 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | | P1,053 |
| Trade and other receivables - net | | 82 |
| Inventories | | 1,526 |
| Prepaid expenses and other current assets | | 253 |
| Property, plant and equipment - net | *13* | 10,009 |
| Right-of-use assets - net | *14* | 35 |
| Other intangible assets - net | *17* | 4,626 |
| Deferred tax assets | *23* | 260 |
| Other noncurrent assets - net | | 258 |
| Liabilities | | |
| Accounts payable and accrued expenses | | (1,162) |
| Income and other taxes payable | | (158) |
| Lease liabilities (including current portion) | | (40) |
| Other noncurrent liabilities | *22* | (182) |
| Total Identifiable Net Assets at Fair Value | | P16,560 |

The Group remeasured its equity interest held before business combination resulting in the recognition of gain amounting to P894, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 32).

The fair value of trade and other receivables amounted to P82. The gross amount of the receivables is P87, of which P5 is expected to be uncollectible as at the acquisition date (Note 8).

A gain was recognized as a result of the business combination as follows:

| | *Note* | 2020 |
|---|---|---|
| Equity interest held before business combination | *11* | P4,902 |
| Gain on fair valuation of investment | *32* | 894 |
| Non-controlling interest | | 10,001 |
| Total identifiable net assets at fair value | | (16,560) |
| Gain | *32* | (P763) |

The gain recognized from the business combination was presented as part of "Other income (charges) - net" account in the consolidated statements of income (Note 32).

The 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, 2021.

- SMEII

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

  On various dates in 2021, SMEII and the Parent Company executed Subscription Agreements to subscribe to a total of 1,956,500,000 common shares of SMEII for a total subscription price of P2,935 or P1.50 per share, which was fully paid in 2021.

- SMNCI

  On June 19, 2020, SMEII entered into a Deed of Absolute Sale of Shares with NCC covering the sale by the latter of its 750,000,000 common shares of SMNCI representing 10.76% direct equity interest, for a total consideration of P750. As a result, SMNCI became a wholly-owned subsidiary of SMEII.

  The transaction was accounted for as an equity transaction as it only resulted to an increase in the ownership interest of SMEII in SMNCI.

  In 2020, SMEII subscribed to a total additional 933,330,000 common shares of SMNCI out of the unissued capital stock for a total subscription price of P1,400 or P1.50 per share. The subscription price was paid in 2020.

Food and Beverage

- GSMI

  On December 1, 2020, the BOD of GSMI approved the redemption of the 32,786,885 outstanding preferred shares, all of which were held by SMC equivalent to 10.27% equity interest in GSMI. The holders of preferred shares are entitled to vote in the same manner as the holders of common shares. On January 4, 2021, GSMI paid the redemption price of P1,000 or P30.50 per share and all accumulated unpaid cash dividends. The transaction reduced the effective ownership of SMC from 70.62% to 67.26%.

- SMBB

  On March 10, 2020, SMBIL and San Miguel (China) Investment Company, Limited (SMCIC), the shareholders of SMBB, passed a resolution approving the dissolution and liquidation of SMBB. SMBB has stopped operations and production activities and started the liquidation process from the date of the resolution (Note 32).

- PTSMFI

  On November 10, 2021, the BOD of SMFB approved the closure of the operations of PTSMFI effective October 31, 2021. SMFB made cash advances to PTSMFI amounting to US$3, representing its proportionate share to the total cash advances necessary to settle PTSMFI's outstanding obligations. PTSMFI is in the process of liquidation as at December 31, 2021.

Others

- SMCEC

  On June 29, 2021, the BOD and stockholders of SMCEC approved the increase in its authorized capital stock from P1,100 divided into 1,100,000,000 common shares to P3,520 divided into 3,520,000,000 common shares, both with a par value of P1.00 per common share. On July 9, 2021, the Parent Company in a Subscription Agreement, subscribed to 605,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P1,210 or P2.00 per common share. The subscription price was paid in 2021.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on July 30, 2021 and was approved on August 3, 2021.

  On August 5, 2021, SMCEC and the Parent Company executed a Subscription Agreement to subscribe to an additional 350,000,000 common shares of SMCEC for a total subscription price of P700 or P2.00 per share, which was fully paid in 2021. On the same date, SMCEC and the Parent Company executed a Subscription Agreement to subscribe to an additional 1,815,000,000 common shares out of the increase in authorized capital stock of SMCEC for a total subscription price of P3,630 or P2.00 per common share, which was fully paid in 2021.

  On October 19, 2021, the BOD and stockholders of SMCEC approved the additional increase in its authorized capital stock from P3,520 divided into 3,520,000,000 common shares to P3,875 divided into 3,875,000,000 common shares, both with a par value of P1.00 per common share. On October 20, 2021, the Parent Company in a Subscription Agreement, subscribed to 177,500,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P355 or P2.00 per common share. The subscription price was paid in 2021.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with and approved by the SEC on December 31, 2021.

- Petrogen

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

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

  As a result, Petrogen became 74.94% directly owned by the Parent Company and was deconsolidated from Petron effective February 4, 2021.

  As at December 31, 2021, the Parent Company's effective equity interest in Petrogen is 92.05%, including the 17.11% indirect equity interest through Petron.

- SMCACDC

  On December 18, 2020, the BOD of SMCACDC approved the redemption of the 730,000 preferred shares held by the Parent Company, which was issued in 2019.

On March 19, 2021, SMCACDC paid the redemption price of P730 or P1,000.00 per share.

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 of disposition of any stocks of any class of SMCACDC.

- SMICL

  On July 13, 2021, the BOD of SMICL approved to increase its authorized capital stock from US$0.12 to US$66 divided into 120,000 common shares with par value of US$1.00 per share and creation of 6,600,000 preferred shares with par value of US$10.00 per share. On the same date, the Parent Company subscribed to 6,600,000 preferred shares out of the increase in authorized capital stock of SMICL, for a total subscription price of US$66 or US$10.00 per share. The subscription price was fully paid in 2021.

  The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock of SMICL was filed with the Registrar of Companies of the Government of Bermuda on August 5, 2021 and was approved on the same date.

  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 SMICL available for distribution, a non-cumulative preference dividend at the rate of 4% per annum on the par value of the preference shares. SMICL has the right to convert the preferred shares into common shares at a rate of one common share for each preferred share, or to redeem any or all of the preferred shares for a redemption price equal to the par value of the preferred shares. The holders of the preferred shares are entitled to vote in same manner as the holders of common shares.

- SMILSI

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

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

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

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

- SMHL

  On September 16, 2020, SMHL issued to the Parent Company an additional 2,500,000 preferred shares from the unissued capital stock of SMHL, for a subscription price of US$25 or US$10.00 per preferred share. In 2019 and 2020, the Parent Company paid a total of US$23. The balance amounting to US$2 was subsequently paid on March 29, 2021.

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 dividend at the rate of 4% per annum on the par value of the preference shares. SMHL has the right to convert the preferred shares into common shares at a rate of one common share for each preferred share, or to redeem any or all of the preferred shares for a redemption price equal to the par value of the preferred shares. The holders of the preferred shares are entitled to vote in same manner as the holders of common shares.

- Petrofuel Logistics Inc. (PLI)

  On August 28, 2020, Petron signed a Share Purchase Agreement with SMILSI for the sale by Petron of its 2,010,000 shares in PLI, equivalent to 100% equity interest in the outstanding common shares of PLI, for a total consideration of P230.

  The transfer was accounted for as a transaction under common control using the pooling of interest method where the entity was controlled by SMC before and after the transaction and the control was not transitory.

## 6. Segment Information

Operating Segments

The reporting format of the Group's operating segments is determined based on the Group's risks and rates of return which are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's reportable segments are food and beverage, packaging, energy, fuel and oil, and infrastructure.

The food and beverage segment is engaged in: (i) the processing and marketing of branded value-added refrigerated processed meats and canned meat products, manufacturing and marketing of butter, margarine, cheese, milk, ice cream, jelly-based snacks and desserts, specialty oils, salad aids, snacks and condiments, marketing of flour mixes and the importation and marketing of coffee and coffee-related products (collectively known as "Prepared and Packaged Food"), (ii) the production and sale of feeds ("Animal Nutrition and Health"), (iii) the poultry and livestock farming, processing and selling of poultry and fresh meats ("Protein"), and (iv) the milling, production and marketing of flour and bakery ingredients, grain terminal handling, food services, franchising and international operations. It is also engaged in the production, marketing and selling of fermented, malt-based and non-alcoholic beverages within the Philippines and several foreign markets; and production of hard liquor in the form of gin, Chinese wine, brandy, rum, vodka and other liquor variants which are available nationwide, while some are exported to select countries.

The packaging segment is involved in the production and marketing of packaging products including, among others, glass containers, glass molds, polyethylene terephthalate (PET) bottles and preforms, PET recycling, plastic closures, corrugated cartons, woven polypropylene, kraft sacks and paperboard, pallets, flexible packaging, plastic crates, plastic floorings, plastic films, plastic trays, plastic pails and tubs, metal closures and two-piece aluminum cans, woven products, industrial laminates and radiant barriers. It is also involved in crate and plastic pallet leasing, PET bottle filling graphics design, packaging research and testing, packaging development and consultation, contract packaging and trading.

The energy segment sells, retails and distributes power, through power supply agreements (PSA), retail supply contracts (RSC), concession agreement and other power-related service agreements, either directly to customers, including Manila Electric Company (Meralco), other generators, distribution utilities (DUs), electric cooperatives and industrial customers, or through the Philippine Wholesale Electricity Spot Market (WESM).

The fuel and oil segment is engaged in refining crude oil and marketing and distribution of refined petroleum products.

The infrastructure segment has investments in companies which hold long-term concessions in the infrastructure sector in the Philippines. It is engaged in the management and operation, as well as, construction and development of various infrastructure projects such as major toll roads, airports, railways and bulk water.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, inventories, biological assets, and property, plant and equipment, net of allowances, accumulated depreciation and amortization, and impairment. Segment liabilities include all operating liabilities and consist primarily of accounts payable and accrued expenses and other noncurrent liabilities, excluding interest payable. Segment assets and liabilities do not include deferred taxes.

Inter-segment Transactions

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

Major Customer

The Group does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Group.

## Operating Segments

Financial information about reportable segments follows:

| | Food and Beverage | | | Packaging | | | Energy | | | Fuel and Oil | | | Infrastructure | | | Cement, Real Estate and Others | | | Eliminations | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| **Sales** | | | | | | | | | | | | | | | | | | | | | | | | |
| External sales | **P309,576** | P279,122 | P310,482 | **P24,033** | P22,832 | P25,327 | **P129,420** | P111,798 | P131,580 | **P430,662** | P281,667 | P508,700 | **P19,688** | P14,564 | P23,399 | **P27,814** | P15,814 | P21,014 | **P -** | P - | P - | **P941,193** | P725,797 | P1,020,502 |
| Inter-segment sales | **202** | 168 | 303 | **9,670** | 8,672 | 12,547 | **4,290** | 3,231 | 3,480 | **7,395** | 4,366 | 5,662 | **2** | 1 | 7 | **31,483** | 21,985 | 19,873 | **(53,042)** | (38,423) | (41,872) | - | - | - |
| Total sales | **P309,778** | P279,290 | P310,785 | **P33,703** | P31,504 | P37,874 | **P133,710** | P115,029 | P135,060 | **P438,057** | P286,033 | P514,362 | **P19,690** | P14,565 | P23,406 | **P59,297** | P37,799 | P40,887 | **(P53,042)** | (P38,423) | (P41,872) | **P941,193** | P725,797 | P1,020,502 |
| **Result** | | | | | | | | | | | | | | | | | | | | | | | | |
| Segment result | **P43,695** | P33,412 | P47,781 | **P1,162** | P961 | P3,598 | **P31,886** | P36,923 | P35,954 | **P26,927** | (P4,674) | P16,101 | **P6,788** | P2,571 | P11,444 | **P4,086** | P2,166 | P991 | **P2,608** | P117 | (P154) | **P117,152** | P71,476 | P115,715 |
| Interest expense and other financing charges | | | | | | | | | | | | | | | | | | | | | | **(49,265)** | (52,035) | (56,019) |
| Interest income | | | | | | | | | | | | | | | | | | | | | | **3,591** | 6,182 | 10,675 |
| Equity in net earnings of associates and joint ventures | | | | | | | | | | | | | | | | | | | | | | **1,040** | 417 | 105 |
| Gain (loss) on sale of property and equipment | | | | | | | | | | | | | | | | | | | | | | **167** | (491) | (237) |
| Other income (charges) - net | | | | | | | | | | | | | | | | | | | | | | **(6,733)** | 11,861 | 6,848 |
| Income tax expense | | | | | | | | | | | | | | | | | | | | | | **(17,793)** | (15,531) | (28,513) |
| **Net Income** | | | | | | | | | | | | | | | | | | | | | | **P48,159** | P21,879 | P48,574 |
| Attributable to: | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity holders of the Parent Company | | | | | | | | | | | | | | | | | | | | | | **P13,925** | P2,973 | P21,329 |
| Non-controlling interests | | | | | | | | | | | | | | | | | | | | | | **34,234** | 18,906 | 27,245 |
| **Net Income** | | | | | | | | | | | | | | | | | | | | | | **P48,159** | P21,879 | P48,574 |
| **Other Information** | | | | | | | | | | | | | | | | | | | | | | | | |
| Segment assets | **P252,307** | P230,208 | P224,862 | **P66,337** | P68,053 | P58,436 | **P553,573** | P528,587 | P475,143 | **P396,054** | P339,241 | P385,838 | **P279,269** | P239,407 | P230,375 | **P395,834** | P383,871 | P308,290 | **(P136,417)** | (P121,035) | (P109,714) | **P1,806,957** | P1,668,332 | P1,573,230 |
| Investments in and advances to associates and joint ventures | - | 4 | 58 | - | - | - | **10,837** | 9,956 | 11,001 | **9** | 6 | 12 | **5,330** | 4,465 | 3,968 | **38,826** | 36,064 | 37,822 | - | - | - | **55,002** | 50,495 | 52,861 |
| Goodwill and trademarks and brand names | | | | | | | | | | | | | | | | | | | | | | **130,357** | 130,434 | 130,777 |
| Other assets | | | | | | | | | | | | | | | | | | | | | | **42,196** | 42,000 | 42,814 |
| Deferred tax assets | | | | | | | | | | | | | | | | | | | | | | **17,141** | 20,946 | 18,052 |
| **Consolidated Total Assets** | | | | | | | | | | | | | | | | | | | | | | **P2,051,653** | P1,912,207 | P1,817,734 |

*Forward*

| | Food and Beverage | | | Packaging | | | Energy | | | Fuel and Oil | | | Infrastructure | | | Cement, Real Estate and Others | | | Eliminations | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| Segment liabilities | **P62,807** | P55,255 | P50,773 | **P10,265** | P10,213 | P10,343 | **P52,019** | P35,245 | P28,129 | **P58,909** | P42,110 | P71,831 | **P47,960** | P45,696 | P45,193 | **P89,333** | P80,571 | P81,903 | **(P110,173)** | (P92,569) | (P93,459) | **P211,120** | P176,521 | P194,713 |
| Loans payable | | | | | | | | | | | | | | | | | | | | | | **190,779** | 140,645 | 169,492 |
| Long-term debt | | | | | | | | | | | | | | | | | | | | | | **813,965** | 766,909 | 682,804 |
| Lease liabilities | | | | | | | | | | | | | | | | | | | | | | **94,992** | 117,037 | 142,248 |
| Income and other taxes payable | | | | | | | | | | | | | | | | | | | | | | **23,102** | 20,998 | 21,185 |
| Dividends payable and others | | | | | | | | | | | | | | | | | | | | | | **7,714** | 7,260 | 7,632 |
| Deferred tax liabilities | | | | | | | | | | | | | | | | | | | | | | **28,742** | 27,749 | 25,265 |
| **Consolidated Total Liabilities** | | | | | | | | | | | | | | | | | | | | | | **P1,370,414** | P1,257,119 | P1,243,339 |
| Capital expenditures (Note 13) | **P10,802** | P13,888 | P18,163 | **P2,605** | P3,149 | P5,207 | **P39,597** | P23,931 | P9,595 | **P9,158** | P8,167 | P19,769 | **P906** | P452 | P598 | **P11,353** | P11,042 | P12,308 | **P -** | P - | P - | **P74,421** | P60,629 | P65,640 |
| Depreciation and amortization of property, plant and equipment (Notes 13 and 28) | **5,062** | 4,392 | 3,621 | **2,086** | 2,164 | 1,960 | **5,960** | 5,215 | 4,587 | **7,047** | 6,525 | 10,328 | **369** | 377 | 371 | **3,382** | 3,027 | 2,794 | **-** | - | - | **23,906** | 21,700 | 23,661 |
| Noncash items other than depreciation and amortization of property, plant and equipment | **6,588** | 6,274 | 5,387 | **590** | 347 | 691 | **5,924** | 2,438 | 2,224 | **3,912** | (889) | 180 | **5,113** | 5,349 | 5,219 | **(15)** | (7,304) | (3,700) | **-** | - | - | **22,112** | 6,215 | 10,001 |
| Loss on (reversal of) impairment of property, plant and equipment, trademark and brand names and other noncurrent assets (Notes 13, 17, 18 and 32) | **455** | (3) | 1,015 | **-** | (99) | 241 | **12** | (103) | 35 | **1** | - | 282 | **-** | - | - | **(19)** | 13 | - | **-** | - | - | **449** | (192) | 1,573 |

## Disaggregation of Revenue

The following table shows the disaggregation of revenue by timing of revenue recognition and the reconciliation of the disaggregated revenue with the Group's reportable segments:

| | Food and Beverage | | | Packaging | | | Energy | | | Fuel and Oil | | | Infrastructure | | | Cement, Real Estate and Others | | | Consolidated | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| **Timing of Revenue Recognition** | | | | | | | | | | | | | | | | | | | | | |
| Sales recognized at point in time | **P309,565** | P279,110 | P310,410 | **P23,408** | P21,897 | P24,570 | P - | P - | P - | **P430,662** | P281,667 | P508,700 | **P -** | P - | P - | **P24,832** | P13,361 | P16,659 | **P788,467** | P596,035 | P860,339 |
| Sales recognized over time | **11** | 12 | 72 | **625** | 935 | 757 | **129,420** | 111,798 | 131,580 | - | - | - | **19,688** | 14,564 | 23,399 | **2,982** | 2,453 | 4,355 | **152,726** | 129,762 | 160,163 |
| **Total External Sales** | **P309,576** | P279,122 | P310,482 | **P24,033** | P22,832 | P25,327 | **P129,420** | P111,798 | P131,580 | **P430,662** | P281,667 | P508,700 | **P19,688** | P14,564 | P23,399 | **P27,814** | P15,814 | P21,014 | **P941,193** | P725,797 | P1,020,502 |

## 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

| | *Note* | 2021 | 2020 |
|---|---|---|---|
| Cash in banks and on hand | | **P70,124** | P102,378 |
| Short-term investments | | **229,906** | 244,831 |
| | *4, 39, 40* | **P300,030** | P347,209 |

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:

| | *Note* | 2021 | 2020 |
|---|---|---|---|
| Trade | | **P99,056** | P74,662 |
| Non-trade | | **60,457** | 48,971 |
| Amounts owed by related parties | *33, 35* | **15,563** | 14,477 |
| | | **175,076** | 138,110 |
| Less allowance for impairment losses | *4, 5* | **13,268** | 13,741 |
| | *4, 39, 40* | **P161,808** | P124,369 |

Trade receivables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade receivables include claims from the Government, interest receivable, claims receivable, contracts receivable and others.

a. 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 Power Sector Assets and Liabilities Management Corporation (PSALM). Due from PSALM amounting to US$60 pertains to SPPC's performance bond pursuant to the Ilijan Independent Power Producer (IPP) Administration (IPPA) Agreements that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court (RTC) of Mandaluyong City (Note 43).

b. As at December 31, 2021 and 2020, SMEC has receivables for the cost of fuel, market fees and other charges related to the dispatch of the excess capacity of the Sual Power Plant amounting to P252 and P291, respectively. In addition, SMEC has receivables arising from WESM transactions related to the excess capacity amounting to P3,662 and P3,022 as at December 31, 2021 and 2020, respectively. The issue on excess capacity is the subject of ongoing cases (Note 43).

Amounts owed by related parties include trade receivables amounting to P2,051 and P994 as at December 31, 2021 and 2020, respectively.

The movements in the allowance for impairment losses are as follows:

| | *Note* | 2021 | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P13,741** | P12,688 |
| Charges (reversal) for the year | *27, 32* | **(225)** | 1,196 |
| Consolidation of subsidiaries | *5* | **-** | 5 |
| Amounts written off | *4* | **(281)** | (151) |
| Translation adjustments and others | | **33** | 3 |
| Balance at end of year | | **P13,268** | P13,741 |

## 9. Inventories

Inventories consist of:

| | Note | 2021 | 2020 |
|---|---|---|---|
| At net realizable value: | | | |
| Finished goods and goods in process (including petroleum products) | | **P84,093** | P57,957 |
| Materials and supplies (including coal) | | **52,589** | 41,059 |
| At cost: | | | |
| Raw land inventory and real estate projects | | **4,527** | 3,806 |
| | *4* | **P141,209** | P102,822 |

The cost of finished goods and goods in process amounted to P84,514 and P58,433 as at December 31, 2021 and 2020, 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 P994 and P142 as at December 31, 2021 and 2020, respectively.

The cost of materials and supplies amounted to P53,673 and P42,207 as at December 31, 2021 and 2020, respectively.

Inventories (including distribution or transshipment costs) charged to cost of sales amounted to P514,638, P367,125 and P565,273 in 2021, 2020 and 2019, respectively (Note 26).

The movements in allowance for write-down of inventories to net realizable value and inventory obsolescence at the beginning and end of 2021 and 2020 follow:

| | Note | 2021 | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P1,624** | P1,939 |
| Provisions (reversals) | *26, 27* | **227** | (165) |
| Consolidation of a subsidiary | *5* | **-** | 136 |
| Write-off and others | | **(346)** | (286) |
| Balance at end of year | | **P1,505** | P1,624 |

Provisions for inventory losses amounted to P277 and P331 in 2021 and 2020, respectively. Reversals of provision for inventory losses pertain to inventories sold amounting to P50 and P496 in 2021 and 2020, respectively. Provisions (reversals) of inventory losses are included as part of "Cost of sales" and "Selling and administrative expenses" accounts in the consolidated statements of income (Notes 26 and 27).

The fair value of agricultural produce less costs to sell, which formed part of the cost of finished goods inventory, amounted to P112 and P200 as at December 31, 2021 and 2020, respectively, with corresponding costs at point of harvest amounting to P86 and P130, respectively. Net unrealized gain on fair valuation of agricultural produce amounted to P26, P70 and P26 in 2021, 2020 and 2019, 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, 2021 and 2020, based on management's assessment.

The fair value of raw land inventory amounted to P11,613 and P10,713 as at December 31, 2021 and 2020, 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:

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Prepaid taxes and licenses | *23* | **P87,358** | P81,925 |
| Restricted cash - current | *4, 18, 39, 40* | **10,872** | 3,111 |
| Advances to contractors and suppliers | *33* | **2,619** | 1,020 |
| PSALM monthly fee outage credits | | **1,397** | 1,681 |
| Prepaid insurance | | **940** | 1,182 |
| Derivative assets | *3, 39, 40* | **870** | 596 |
| Financial assets at amortized cost - current portion | *4, 12, 39, 40* | **547** | 105 |
| Financial assets at FVPL | *39, 40* | **298** | 275 |
| Prepaid rent | | **290** | 270 |
| Catalyst | | **178** | 241 |
| Financial assets at FVOCI - current portion | *4, 12, 39, 40* | **46** | 80 |
| Others | *34* | **3,274** | 4,124 |
| | | **P108,689** | P94,610 |

Restricted cash - current represents: (i) cash in banks maintained by SMC NAIAX, SMCTC, SIDC, MMSS3, SMC Tollways and LCWDC in accordance with the specific purposes and terms as required under certain loan and concession agreements. Certain loan agreements provide that the Security Trustee shall have control over and the exclusive right of withdrawal from the restricted bank accounts; and (ii) funds maintained in various financial institutions, as (a) cash flow waterfall accounts required under the respective credit facilities of SCPC and SMCPC, (b) environmental guarantee fund for remittance to the DENR and (c) financial benefits to host communities, as required by law.

PSALM monthly fee outage credits pertain to the approved reduction in SMEC's future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2021 and 2020.

Advances to contractors and suppliers include amounts owed by a related party amounting to P19 as at December 31, 2020 (Note 33).

"Others" consist mainly of prepayments for various operating expenses and contract assets pertaining to the Group's right to consideration for work completed but not billed at the reporting date on the sale of real estate projects.

The methods and assumptions used to estimate the fair values of restricted cash, derivative assets, financial assets at FVPL, and financial assets at FVOCI are discussed in Note 40.

## 11. Investments and Advances

Investments and advances consist of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Investments in Shares of Stock of Associates and Joint Ventures - at Equity** | | | |
| **Acquisition Cost** | | | |
| Balance at beginning of year | | **P20,430** | P23,930 |
| Additions | | **357** | - |
| Reclassification to investment in shares of stock of subsidiaries | *5* | **-** | (3,500) |
| Balance at end of year | | **20,787** | 20,430 |
| **Accumulated Equity in Net Earnings** | | | |
| Balance at beginning of year | | **836** | 1,953 |
| Equity in net earnings | | **1,040** | 417 |
| Share in other comprehensive income (loss) | | **10** | (132) |
| Reclassification to investment in shares of stock of subsidiaries | *5* | **-** | (1,402) |
| Balance at end of year | | **1,886** | 836 |
| | | **22,673** | 21,266 |
| **Advances for Investments** | | **32,329** | 29,229 |
| | *4* | **P55,002** | P50,495 |

Investments in Shares of Stock of Associates

a. NCC

As discussed in Note 5, NCC became a wholly-owned subsidiary of SMEII and was consolidated to the Group effective August 24, 2020.

b. Bank of Commerce (BOC)

- Acquisition of Additional Common Shares

  On October 20, 2021, SMC through SMCEC acquired 1,571,600 common shares of BOC at P226.48 per share or P357, including transaction cost, representing additional 1.4% ownership interest.

  The Bangko Sentral ng Pilipinas (BSP) and SEC approved the Amendment of Articles of Incorporation of BOC on October 4 and November 2, 2021, respectively, for the change in the par value of BOC's common and preferred shares from P100.00 per share to P10.00 per share, which was approved by the BOD and stockholders of BOC on May 25 and July 8, 2021, respectively. As a result, SMPI and SMCEC's investment in BOC's common shares increased from 44,771,180 shares to 447,711,800 shares and from 6,830,556 shares to 68,305,560 shares, respectively. SMCEC's investment in BOC's preferred shares also increased from 41,666,667 shares to 416,666,670 shares and presented as part of "Equity securities" under "Investments in equity and debt instruments" account in the 2021 consolidated statement of financial position (Note 12).

  As at December 31, 2021, SMC through SMPI and SMCEC, respectively, has 39.93% and 6.09% equity ownership interest in BOC.

- Approval of the Upgrade of Banking License

  On December 23, 2021, the Monetary Board of the BSP, in its Resolution No. 1798, approved the upgrade of the banking license of BOC from commercial bank to universal bank, subject to the public offering of its shares and listing the same with the PSE within one year from the date of the grant of the universal banking license.

- Initial Public Offering of Common Shares

  On February 15, 2022, the SEC issued its pre-effective letter relating to the registration of securities of up to 1,403,013,920 common shares of BOC to be listed and traded in the Main Board of the PSE in relation to its initial public offering. On February 16, 2022, the PSE approved the application for the listing of up to 1,403,013,920 common shares of BOC, which includes the 280,602,800 common shares subject of the initial public offering. The 1,403,013,920 common shares of BOC will be listed with the Main Board of the PSE on March 31, 2022.

Investments in Shares of Stock of Joint Ventures

a. Angat Hydro and KWPP

   PVEI, a subsidiary of SMC Global has an existing joint venture agreement with Korea Water Resources Corporation (K-Water), covering the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) which was previously awarded by PSALM to K-Water.

   PVEI holds 30,541,470 shares or 60% of the outstanding capital stock of Angat Hydro and 75 shares representing 60% of KWPP outstanding capital stock. PVEI and K-Water are jointly in control of the management and operation of Angat Hydro and KWPP.

   In January 2017, PVEI granted shareholder advances amounting to US$32 to Angat Hydro. The advances bear annual interest rate of 4.5% and were due on April 30, 2017. The due date of the advances was extended as agreed amongst the parties. As at December 31, 2021 and 2020, the remaining balance of the shareholder advances amounted to US$2 and due date was extended to December 31, 2022.

   In June and October 2021, PVEI granted shareholder advances to Angat Hydro amounting to P600 and P408, respectively. The advances bear interest rates of 4.6% and 6.125%, respectively, and are due on January 5, 2032. As at December 31, 2021, the outstanding balance of the advances amounted to a total of P1,008.

b. MNHPI

   The Parent Company through SMHC owns 50% of the outstanding capital stock of MNHPI as at December 31, 2021 and 2020. MNHPI is the terminal operator of Manila North Harbor, a 63.5-hectare port facility situated in Tondo, City of Manila. The port has a total quay length of 5,758 meters and 41 berths which can accommodate all types of vessels such as containerized and non-container type vessels.

   On April 26, 2019, MNHPI ceased to be a subsidiary of SMHC following the increase in shareholdings of non-controlling interest and was deconsolidated from the Group effective as of the same date. The Group recognized a gain on fair valuation of investment amounting to P727 in 2019, included as part of "Other income (charges) - net" account in the consolidated statements of income (Note 32).

   In December 2019, SMHC acquired additional 1,950,000 and 50,000 common shares of stock of MNHPI from IZ Investment Holdings, Inc. and Petron, respectively, increasing its equity interest in MNHPI from 43.33% to 50%.

Advances for Investments

a. SMPI made advances to future investees amounting to P1,034 and P3,854 as at December 31, 2021 and 2020, respectively. These advances will be applied against future subscriptions of SMPI to the shares of stock of the future investee companies.

   In 2021, advances for investments amounting to P2,975 were reclassified to investment in shares of stock of subsidiaries as part of the consideration transferred for the acquisition of various entities (Notes 5 and 15).

b. SMC Global and SMEC made deposits to certain landholding companies amounting to P5,587 and P4,589 as at December 31, 2021 and 2020, 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, 2021 and 2020, outstanding investment advances amounted to P20,865 and P19,318, 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, 2021 | | | | | December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Angat Hydro and KWPP** | **BOC** | **MNHPI** | **Others** | **Total** | Angat Hydro and KWPP | NCC | BOC | MNHPI | Others | Total |
| **Country of incorporation** | **Philippines** | **Philippines** | **Philippines** | | | Philippines | Philippines | Philippines | Philippines | | |
| **Percentage of ownership** | **60.00%** | **46.02%** | **50.00%** | | | 60.00% | - | 44.62% | 50.00% | | |
| **Share in net income (loss)** | **(P134)** | **P582** | **P550** | **P42** | **P1,040** | (P480) | P127 | P314 | P428 | P28 | P417 |
| **Share in other comprehensive income (loss)** | **-** | **-** | **14** | **(4)** | **10** | - | - | (57) | (11) | (64) | (132) |
| **Share in total comprehensive income (loss)** | **(P134)** | **P582** | **P564** | **P38** | **P1,050** | (P480) | P127 | P257 | P417 | (P36) | P285 |
| **Carrying amounts of investments in shares of stock of associates and joint ventures** | **P5,020** | **P11,869** | **P4,854** | **P930** | **P22,673** | P5,154 | P - | P10,930 | P4,290 | P892 | P21,266 |

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, 2021 | | | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Angat Hydro and KWPP** | **BOC** | **MNHPI** | **Others** | Angat Hydro and KWPP | BOC | MNHPI | Others |
| **Current assets** | **P2,649** | **P100,520** | **P1,901** | **P5,281** | P2,225 | P94,964 | P1,599 | P5,490 |
| **Noncurrent assets** | **17,185** | **99,193** | **9,999** | **2,640** | 16,989 | 75,957 | 10,427 | 2,742 |
| **Current liabilities** | **(1,154)** | **(169,937)** | **(2,580)** | **(4,250)** | (1,319) | (146,840) | (2,951) | (4,493) |
| **Noncurrent liabilities** | **(12,483)** | **(6,413)** | **(2,679)** | **(514)** | (11,474) | (7,314) | (2,747) | (585) |
| **Net assets** | **P6,197** | **P23,363** | **P6,641** | **P3,157** | P6,421 | P16,767 | P6,328 | P3,154 |
| **Sales** | **P1,927** | **P6,095** | **P4,341** | **P4,049** | P1,341 | P6,280 | P3,831 | P4,177 |
| **Net income (loss)** | **(P224)** | **P1,207** | **P1,283** | **(P33)** | (P800) | P784 | P759 | P20 |
| **Other comprehensive income (loss)** | **-** | **(11)** | **28** | **31** | - | (113) | 7 | (20) |
| **Total comprehensive income (loss)** | **(P224)** | **P1,196** | **P1,311** | **(P2)** | (P800) | P671 | P766 | P - |

## 12. Investments in Equity and Debt Instruments

Investments in equity and debt instruments consist of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Equity securities | | **P41,477** | P41,148 |
| Government and other debt securities | | **623** | 381 |
| Proprietary membership shares and others | | **459** | 422 |
| | *4, 39, 40* | **42,559** | 41,951 |
| Less current portion | *10* | **593** | 185 |
| | | **P41,966** | P41,766 |

*Equity Securities*
Equity securities include:

a. Parent Company's investment 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 P35,737 and P35,781 as at December 31, 2021 and 2020, respectively.

b. Parent Company's investment in redeemable preferred shares of stock of Carmen Red Ltd. (CRL) amounting to US$123 or P5,139 as at December 31, 2020. On December 28, 2021, the investment in preferred shares was redeemed by CRL at the redemption price of US$123 or P6,181. The Parent Company also received dividends of US$32 or P1,594 presented as part of "Dividend income" under "Other income (charges) - net" account in the consolidated statements of income (Note 32).

c. Parent Company through SMCEC's subscription to 41,666,667 Series 1 Preferred Shares of BOC at P132.00 per share or P5,500 on August 5, 2021.

   The preferred shares are non-voting, except as provided by law, perpetual or non-redeemable, cumulative, convertible to common shares at the option of the holders, subject to requirements under laws, rules and regulations, have preference over common shares in case of liquidation, dissolution, or winding up of the affairs of BOC and subject to the other terms and conditions as may be fixed by the BOD of BOC, required under regulations, and to the extent permitted by applicable law.

   As discussed in Note 11, the investment in preferred shares increased from 41,666,667 shares to 416,666,670 shares following the approval of the Amendment of Articles of Incorporation of BOC for the change in the par value from P100.00 per share to P10.00 per share.

*Debt Securities*
Petrogen's government securities are deposited with the Bureau of Treasury in accordance with the provisions of the Insurance Code, for the benefit and security of its policyholders and creditors. These investments bear fixed annual interest rates ranging from 1.23% to 7.02% in 2021 and 1.78% to 7.02% in 2020. (Note 31).

The movements in investments in equity and debt instruments are as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P41,951** | P42,164 |
| Additions | | **6,101** | 70 |
| Redemption/disposals | | **(5,467)** | (108) |
| Fair value gain (loss) | | **1** | (172) |
| Amortization of premium | | **1** | (1) |
| Currency translation adjustments and others | | **(28)** | (2) |
| Balance at end of year | *4, 10, 39, 40* | **P42,559** | P41,951 |

The investments in equity and debt instruments are classified as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Noncurrent** | | | |
| Financial assets at FVOCI | | **P41,936** | P41,616 |
| Financial assets at amortized cost | | **30** | 150 |
| | | **41,966** | 41,766 |
| **Current** | | | |
| Financial assets at FVOCI | *10* | **46** | 80 |
| Financial assets at amortized cost | *10* | **547** | 105 |
| | | **593** | 185 |
| | | **P42,559** | P41,951 |

The carrying amount of the investments approximate their fair value (Note 40).

The methods and assumptions used to estimate the fair value of investments in equity and debt instruments are discussed in Notes 3, 4 and 40.

## 13. Property, Plant and Equipment

Property, plant and equipment consist of:

| | Note | Land and Land Improvements | Buildings and Improvements | Power Plants | Refinery and Plant Equipment | Service Stations and Other Equipment | Equipment, Furniture and Fixtures | Leasehold Improvements | Capital Projects in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | |
| January 1, 2020 | | P36,710 | P51,108 | P123,507 | P174,189 | P19,283 | P169,083 | P6,973 | P93,439 | P674,292 |
| Additions | | 1,272 | 342 | 953 | 446 | 560 | 3,717 | 66 | 53,273 | 60,629 |
| Consolidation of a subsidiary | *5* | 2,581 | 2,042 | - | - | - | 11,425 | - | 790 | 16,838 |
| Disposals/retirement | | (20) | (172) | - | (5) | (91) | (5,189) | (28) | (38) | (5,543) |
| Reclassifications and others | *15* | 1,564 | 8,624 | 24,903 | 1,757 | 349 | 12,671 | 566 | (46,252) | 4,182 |
| Currency translation adjustments | | (143) | (261) | (2,671) | (430) | (315) | (750) | 10 | (1,557) | (6,117) |
| December 31, 2020 | | 41,964 | 61,683 | 146,692 | 175,957 | 19,786 | 190,957 | 7,587 | 99,655 | 744,281 |
| Additions | | 1,524 | 173 | 527 | 1,903 | 149 | 3,858 | 180 | 66,107 | 74,421 |
| Acquisition of subsidiaries | *5, 11* | 867 | 120 | - | - | - | 43 | - | - | 1,030 |
| Disposals/retirement | | (2) | (262) | - | (5) | (24) | (2,823) | (110) | (15) | (3,241) |
| Reclassifications and others | *5, 15* | (490) | 2,564 | 2,620 | 9,923 | (65) | 6,523 | 917 | (21,211) | 781 |
| Currency translation adjustments | | 32 | 758 | 4,287 | 754 | 246 | 2,109 | 6 | (75) | 8,117 |
| **December 31, 2021** | | **43,895** | **65,036** | **154,126** | **188,532** | **20,092** | **200,667** | **8,580** | **144,461** | **825,389** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | |
| January 1, 2020 | | 3,036 | 17,521 | 11,682 | 57,721 | 12,878 | 93,125 | 1,636 | - | 197,599 |
| Depreciation and amortization | *6, 28* | 380 | 1,571 | 5,713 | 3,128 | 1,028 | 9,484 | 396 | - | 21,700 |
| Consolidation of a subsidiary | *5* | 88 | 511 | - | - | - | 5,900 | - | - | 6,499 |
| Disposals/retirement | | (16) | (109) | - | (5) | (60) | (3,988) | (27) | - | (4,205) |
| Reclassifications | | (5) | 30 | - | 81 | 15 | (248) | (39) | - | (166) |
| Currency translation adjustments | | (6) | (131) | (1,103) | (318) | (172) | (454) | 3 | - | (2,181) |
| December 31, 2020 | | 3,477 | 19,393 | 16,292 | 60,607 | 13,689 | 103,819 | 1,969 | - | 219,246 |
| Depreciation and amortization | *6, 28* | 465 | 1,852 | 6,265 | 3,665 | 941 | 10,294 | 424 | - | 23,906 |
| Acquisition of subsidiaries | *5, 11* | 88 | 119 | - | - | - | 42 | - | - | 249 |
| Disposals/retirement | | (2) | (215) | - | (1) | (15) | (1,781) | (104) | - | (2,118) |
| Reclassifications | | (83) | (131) | - | - | 2 | (997) | 53 | - | (1,156) |
| Currency translation adjustments | | 3 | 244 | 1,562 | 245 | 134 | 976 | 6 | - | 3,170 |
| **December 31, 2021** | | **3,948** | **21,262** | **24,119** | **64,516** | **14,751** | **112,353** | **2,348** | **-** | **243,297** |
| **Accumulated Impairment Losses** | | | | | | | | | | |
| January 1, 2020 | | - | 3,102 | - | - | - | 9,952 | 25 | - | 13,079 |
| Impairment | *32* | - | - | - | - | - | 35 | - | - | 35 |
| Consolidation of a subsidiary | *5* | - | - | - | - | - | 330 | - | - | 330 |
| Disposals/retirement | | - | - | - | - | - | (13) | - | - | (13) |
| Reclassifications | | - | - | - | - | - | (11) | - | - | (11) |
| Currency translation adjustments | | - | 27 | - | - | - | (38) | 2 | - | (9) |
| December 31, 2020 | | - | 3,129 | - | - | - | 10,255 | 27 | - | 13,411 |
| Impairment | *32* | 38 | 2 | - | - | 1 | 45 | - | - | 86 |
| Disposals/retirement | | - | - | - | - | - | (24) | (1) | - | (25) |
| Currency translation adjustments | | - | 264 | - | - | - | 747 | - | - | 1,011 |
| **December 31, 2021** | | **38** | **3,395** | **-** | **-** | **1** | **11,023** | **26** | **-** | **14,483** |
| **Carrying Amount** | | | | | | | | | | |
| December 31, 2020 | | P38,487 | P39,161 | P130,400 | P115,350 | P6,097 | P76,883 | P5,591 | P99,655 | P511,624 |
| **December 31, 2021** | | **P39,909** | **P40,379** | **P130,007** | **P124,016** | **P5,340** | **P77,291** | **P6,206** | **P144,461** | **P567,609** |

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

Total depreciation, amortization and impairment losses recognized in the consolidated statements of income amounted to P23,992, P21,735 and P24,537 in 2021, 2020 and 2019, respectively (Notes 28 and 32). These amounts include annual amortization of capitalized interest amounting to P942, P997 and P562 in 2021, 2020 and 2019. respectively.

Reclassifications and others include transfers to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 15) and reclassifications from capital projects in progress account to specific property, plant and equipment accounts.

In 2020, property, plant and equipment of the Group's hog farm were reclassified to idle assets included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position as at December 31, 2021 and 2020 due to the impact of the African Swine Fever that resulted in extended downtime of the facility (Note 18).

As discussed in Notes 3 and 4, the Group has changed its depreciation method for refinery and plant equipment and certain power plant assets used in the production of fuel from straight-line to UOP method.

The Group has capitalized interest amounting to P2,035 and P2,323 in 2021 and 2020, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization ranged from 0.06% to 8.21% and 1.45% to 12.96% in 2021 and 2020, respectively. The unamortized capitalized borrowing costs amounted to P19,119 and P18,026 as at December 31, 2021 and 2020, respectively.

Certain fully depreciated property, plant and equipment with aggregate costs of P76,855 and P68,242 as at December 31, 2021 and 2020 respectively, are still being used in the Group's operations.

As at December 31, 2021 and 2020, certain property, plant and equipment amounting to P127,663 and P125,835 respectively, are pledged as security for syndicated project finance loans (Note 21).

## 14. Right-of-Use Assets

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

| | *Note* | Land | Buildings and Improvements | Power Plants | Service Stations and Other Equipment | Machinery and Equipment | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2020 | | P12,169 | P1,086 | P167,387 | P24 | P615 | P181,281 |
| Additions | | 1,190 | 170 | - | - | 100 | 1,460 |
| Consolidation of a subsidiary | *5* | 7 | 47 | - | - | - | 54 |
| Disposals/retirement | | (148) | (206) | - | - | (33) | (387) |
| Remeasurement and others | | 1,153 | (77) | - | - | (11) | 1,065 |
| Currency translation adjustments | | 39 | (4) | - | - | 5 | 40 |
| December 31, 2020 | | 14,410 | 1,016 | 167,387 | 24 | 676 | 183,513 |
| Additions | | 654 | 548 | - | - | 70 | 1,272 |
| Disposals/retirement | | (284) | (441) | - | - | (75) | (800) |
| Remeasurement and others | | (295) | (75) | - | - | - | (370) |
| Currency translation adjustments | | 127 | 10 | - | - | 2 | 139 |
| **December 31, 2021** | | **14,612** | **1,058** | **167,387** | **24** | **673** | **183,754** |
| **Accumulated Depreciation and Amortization** | | | | | | | |
| January 1, 2020 | | 1,463 | 695 | 5,186 | 3 | 220 | 7,567 |
| Depreciation and amortization | *28* | 866 | 419 | 5,187 | 3 | 219 | 6,694 |
| Consolidation of a subsidiary | *5* | 3 | 16 | - | - | - | 19 |
| Disposals/retirement | | (46) | (193) | - | - | (33) | (272) |
| Remeasurement and others | | 518 | (314) | - | - | (4) | 200 |
| Currency translation adjustments | | 9 | 11 | - | - | - | 20 |
| December 31, 2020 | | 2,813 | 634 | 10,373 | 6 | 402 | 14,228 |
| Depreciation and amortization | *28* | 835 | 336 | 5,186 | 3 | 164 | 6,524 |
| Disposals/retirement | | (104) | (391) | - | - | (72) | (567) |
| Remeasurement and others | | 49 | 4 | - | - | - | 53 |
| Currency translation adjustments | | 63 | 6 | - | - | 1 | 70 |
| **December 31, 2021** | | **3,656** | **589** | **15,559** | **9** | **495** | **20,308** |
| **Accumulated Impairment Losses** | | | | | | | |
| January 1, 2020 | | 110 | - | - | - | - | 110 |
| Remeasurement and others | | (29) | - | - | - | - | (29) |
| Currency translation adjustments | | (4) | - | - | - | - | (4) |
| December 31, 2020 | | 77 | - | - | - | - | 77 |
| Currency translation adjustments | | 5 | - | - | - | - | 5 |
| **December 31, 2021** | | **82** | **-** | - | **-** | **-** | **82** |
| **Carrying Amount** | | | | | | | |
| December 31, 2020 | | P11,520 | P382 | P157,014 | P18 | P274 | P169,208 |
| **December 31, 2021** | | **P10,874** | **P469** | **P151,828** | **P15** | **P178** | **P163,364** |

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 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 P6,057, P7,465 and 8,734 in 2021, 2020 and 2019, respectively (Note 30).

The Group also has certain leases of property and equipment with lease terms of 12 months or less and leases of equipment with low value. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases. The expenses relating to short-term leases, leases of low-value assets and variable lease payments that do not depend on an index or a rate amounted to P288, P6 and P2,766, respectively, in 2021, P877, P10 and P2,565, respectively, in 2020, and P731, P3 and P2,727, respectively, in 2019.

The Group had total cash outflows for leases of P35,164, P35,556 and P32,335 in 2021, 2020 and 2019, respectively.

## 15. Investment Property

The movements in investment property are as follows:

| | Note | Land, Land and Leasehold Improvements | Buildings and Improvements | Machinery and Equipment | Construction in Progress | Right-of-Use Asset | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| January 1, 2020 | | P35,370 | P18,846 | P438 | P389 | P12,242 | P67,285 |
| Additions | | 7,109 | 473 | - | 280 | 849 | 8,711 |
| Reclassifications | *13* | 4,846 | 542 | - | (193) | (2,721) | 2,474 |
| Disposals/retirement | | - | (34) | - | - | (110) | (144) |
| Currency translation adjustments | | (402) | (335) | - | (34) | (31) | (802) |
| December 31, 2020 | | 46,923 | 19,492 | 438 | 442 | 10,229 | 77,524 |
| Additions | | 5,512 | 274 | - | 285 | 475 | 6,546 |
| Acquisition of subsidiaries | *5, 11* | 3,682 | - | - | - | - | 3,682 |
| Reclassifications | *13* | 712 | 588 | - | (201) | 6 | 1,105 |
| Disposals/retirement | | (6) | (17) | - | (19) | (136) | (178) |
| Currency translation adjustments | | 299 | 293 | - | (3) | 35 | 624 |
| **December 31, 2021** | | **57,122** | **20,630** | **438** | **504** | **10,609** | **89,303** |
| **Accumulated Depreciation and Amortization** | | | | | | | |
| January 1, 2020 | | 4,137 | 9,697 | 425 | - | 1,239 | 15,498 |
| Depreciation and amortization | *28* | 320 | 740 | 2 | - | 994 | 2,056 |
| Reclassifications | | (7) | 3 | - | - | 30 | 26 |
| Disposals/retirement | | - | (31) | - | - | (110) | (141) |
| Currency translation adjustments | | (221) | (369) | - | - | (11) | (601) |
| December 31, 2020 | | 4,229 | 10,040 | 427 | - | 2,142 | 16,838 |
| Depreciation and amortization | *28* | 331 | 756 | 2 | - | 936 | 2,025 |
| Reclassifications | | (4) | 55 | - | - | (25) | 26 |
| Disposals/retirement | | - | (16) | - | - | (130) | (146) |
| Currency translation adjustments | | 269 | 444 | - | - | 14 | 727 |
| **December 31, 2021** | | **4,825** | **11,279** | **429** | **-** | **2,937** | **19,470** |
| **Accumulated Impairment Losses** | | | | | | | |
| **December 31, 2020 and 2021** | | **8** | **-** | **-** | **-** | **-** | **8** |
| **Carrying Amount** | | | | | | | |
| December 31, 2020 | | P42,686 | P9,452 | P11 | P442 | P8,087 | P60,678 |
| **December 31, 2021** | | **P52,289** | **P9,351** | **P9** | **P504** | **P7,672** | **P69,825** |

In 2021 and 2020, property, plant and equipment were reclassified to investment property due to change in usage as evidenced by ending of owner-occupation or commencement of operating lease to another party (Note 13).

No impairment loss was recognized in 2021, 2020 and 2019.

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 2021, 2020 and 2019.

The fair value of investment property amounting to P94,390 and P75,305 as at December 31, 2021 and 2020, 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 range from 3.00% to 6.27%.

## 16. Biological Assets

Biological assets consist of:

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Current: | | | |
| Growing stocks | | **P2,509** | P2,591 |
| Goods in process | | **597** | 810 |
| | | **3,106** | 3,401 |
| Noncurrent: | | | |
| Breeding stocks - net | | **2,244** | 2,352 |
| | *4* | **P5,350** | P5,753 |

The amortization of breeding stocks recognized in the consolidated statements of income amounted to P2,896, P3,565 and P3,152 in 2021, 2020 and 2019, 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:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Cost** | | | |
| Balance at beginning of year | | **P6,338** | P8,511 |
| Increase (decrease) due to: | | | |
| Production | | **47,234** | 47,131 |
| Purchases | | **306** | 349 |
| Mortality | | **(405)** | (1,396) |
| Harvest | | **(44,551)** | (43,622) |
| Retirement | | **(3,021)** | (4,635) |
| Balance at end of year | | **5,901** | 6,338 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **585** | 1,552 |
| Amortization | *28* | **2,896** | 3,565 |
| Retirement | | **(2,930)** | (4,532) |
| Balance at end of year | | **551** | 585 |
| **Carrying Amount** | | **P5,350** | P5,753 |

The Group harvested approximately 599.9 million and 575.7 million kilograms of grown broilers in 2021 and 2020, respectively, and 0.29 million and 0.45 million heads of marketable hogs and cattle in 2021 and 2020, 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 P63,349 and P64,875 in 2021 and 2020, respectively.

## 17. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of:

| | **2021** | 2020 |
|---|---|---|
| Goodwill | **P130,081** | P129,733 |
| Other intangible assets | **190,979** | 169,532 |
| | **P321,060** | P299,265 |

The movements in goodwill are as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Gross Carrying Amount** | | | |
| Balance at beginning of year | | **P130,612** | P130,952 |
| Cumulative translation adjustments | | **348** | (340) |
| Balance at end of year | | **130,960** | 130,612 |
| **Accumulated Impairment Losses** | | | |
| Balance at beginning and end of year | | **879** | 879 |
| | *4* | **P130,081** | P129,733 |

The movements in other intangible assets with indefinite useful lives are as follows:

| | Note | Licenses | Trademarks and Brand Names | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| January 1, 2020 | | P2,211 | P949 | P3,160 |
| Currency translation adjustments | | (106) | (15) | (121) |
| December 31, 2020 | | 2,105 | 934 | 3,039 |
| Disposals | | - | (45) | (45) |
| Currency translation adjustments | | (95) | 21 | (74) |
| **December 31, 2021** | | **2,010** | **910** | **2,920** |
| **Accumulated Impairment Losses** | | | | |
| January 1, 2020 | | - | 245 | 245 |
| Currency translation adjustments | | - | (12) | (12) |
| December 31, 2020 | | - | 233 | 233 |
| Impairment | *32* | - | 386 | 386 |
| Currency translation adjustments | | - | 15 | 15 |
| **December 31, 2021** | | **-** | **634** | **634** |
| **Carrying Amount** | | | | |
| December 31, 2020 | | P2,105 | P701 | P2,806 |
| **December 31, 2021** | | **P2,010** | **P276** | **P2,286** |

The movements in other intangible assets with finite useful lives are as follows:

| | | Concession Rights | | | | Mineral Rights and Evaluation | Computer Software and Licenses | |
|---|---|---|---|---|---|---|---|---|
| | Note | Toll Road | Airport | Power | Water | Assets | and Others | Total |
| **Cost** | | | | | | | | |
| January 1, 2020 | | P160,872 | P9,020 | P1,240 | P6,887 | P1,759 | P5,313 | P185,091 |
| Additions | | 14,083 | 1,960 | 211 | 7 | - | 357 | 16,618 |
| Consolidation of a subsidiary | *5, 38* | - | - | - | - | 4,625 | 23 | 4,648 |
| Reclassifications and others | | 5,269 | - | (17) | - | - | (1,052) | 4,200 |
| Currency translation adjustments | | - | - | - | - | - | (7) | (7) |
| December 31, 2020 | | 180,224 | 10,980 | 1,434 | 6,894 | 6,384 | 4,634 | 210,550 |
| Additions | | 8,570 | 14,831 | 127 | 4 | - | 2,475 | 26,007 |
| Reclassifications and others | | 2,022 | 122 | (4) | - | - | (135) | 2,005 |
| Currency translation adjustments | | - | - | - | - | - | 28 | 28 |
| **December 31, 2021** | | **190,816** | **25,933** | **1,557** | **6,898** | **6,384** | **7,002** | **238,590** |
| **Accumulated Amortization** | | | | | | | | |
| January 1, 2020 | | 34,358 | 1,039 | 181 | 206 | 23 | 3,095 | 38,902 |
| Amortization | *28* | 4,027 | 349 | 55 | 257 | 62 | 221 | 4,971 |
| Consolidation of a subsidiary | *5, 38* | - | - | - | - | - | 22 | 22 |
| Reclassifications and others | | - | - | - | - | - | (226) | (226) |
| Currency translation adjustments | | - | - | - | - | - | (26) | (26) |
| December 31, 2020 | | 38,385 | 1,388 | 236 | 463 | 85 | 3,086 | 43,643 |
| Amortization | *28* | 5,090 | 351 | 60 | 257 | 180 | 225 | 6,163 |
| Reclassifications and others | | - | - | - | - | - | (120) | (120) |
| Currency translation adjustments | | - | - | - | - | - | 31 | 31 |
| **December 31, 2021** | | **43,475** | **1,739** | **296** | **720** | **265** | **3,222** | **49,717** |
| **Accumulated Impairment** | | | | | | | | |
| January 1, 2020 | | - | - | 50 | - | - | 40 | 90 |
| Impairment | *32* | - | - | 91 | - | - | - | 91 |
| December 31, 2020 | | - | - | 141 | - | - | 40 | 181 |
| Disposals | | - | - | - | - | - | (1) | (1) |
| **December 31, 2021** | | - | - | **141** | - | - | **39** | **180** |
| **Carrying Amount** | | | | | | | | |
| December 31, 2020 | | P141,839 | P9,592 | P1,057 | P6,431 | P6,299 | P1,508 | P166,726 |
| **December 31, 2021** | | **P147,341** | **P24,194** | **P1,120** | **P6,178** | **P6,119** | **P3,741** | **P188,693** |

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:

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Goodwill** | **Licenses, Trademarks and Brand Names** | Goodwill | Licenses, Trademarks and Brand Names |
| Energy | **P69,944** | **P -** | P69,944 | P - |
| Fuel and oil | **30,260** | **-** | 30,057 | - |
| Infrastructure | **21,950** | **-** | 21,950 | - |
| Packaging | **4,214** | **-** | 4,069 | - |
| Food and beverage | **3,639** | **2,286** | 3,639 | 2,806 |
| Others | **74** | **-** | 74 | - |
| Total | **P130,081** | **P2,286** | P129,733 | P2,806 |

The recoverable amount of goodwill has been determined based on fair value less costs to sell or a valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined per individual cash-generating unit to arrive at its terminal value. The growth rates used which range from 2% to 10.5% and 2% to 12.9% in 2021 and 2020, 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 2021 and 2020. 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 2021, 2020 and 2019.

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 5% and 2% to 3% in 2021 and 2020, 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 5.9% to 12% and 6% to 15.1% in 2021 and 2020, respectively. 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).

Management's calculations are updated to reflect the most recent developments as at reporting date. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that a market participant would make. Management also considered the expected improvement of the economy in 2021, the lifting of liquor bans, consumer spending and expected increase in revenues through its promotional strategies.

Impairment loss recognized in 2021 for La Pacita trademark amounted to P386 with a recoverable amount of P60 (Note 32). No impairment loss was recognized for licenses in 2021, 2020 and 2019 and for trademarks and brand names in 2020 and 2019.

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.

As at December 31, 2021 and 2020, certain other intangible assets amounting to P101,769 and P97,954, respectively, were pledged as security for syndicated project finance loans (Note 21).

## 18. Other Noncurrent Assets

Other noncurrent assets consist of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Noncurrent receivables and deposits - net | *4, 33, 34, 39, 40* | **P32,310** | P28,095 |
| Advances to contractors and suppliers | | **29,016** | 17,443 |
| Deferred containers - net | *4* | **19,063** | 19,015 |
| Retirement assets | *35* | **4,175** | 2,699 |
| Deposits on land for future development | | **4,049** | 3,626 |
| Idle assets | *4* | **2,365** | 2,002 |
| Restricted cash | *4, 39, 40* | **2,093** | 4,779 |
| Noncurrent prepaid input tax | | **1,506** | 2,341 |
| Deferred exploration and development costs | *4* | **719** | 715 |
| Derivative assets - noncurrent | *3, 39, 40* | **659** | 39 |
| Catalyst | | **489** | 552 |
| Noncurrent prepaid rent | | **316** | 383 |
| Others | *21* | **1,840** | 1,773 |
| | | **P98,600** | P83,462 |

The movements in deferred containers - net are as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Gross Carrying Amount** | | | |
| Balance at beginning of year | | **P32,927** | P32,332 |
| Additions | | **3,025** | 1,798 |
| Disposals/retirement/reclassifications | | **(1,543)** | (1,090) |
| Currency translation adjustments | | **105** | (113) |
| Balance at end of year | | **34,514** | 32,927 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **13,178** | 11,526 |
| Amortization | *28* | **2,323** | 2,038 |
| Disposals/retirement/reclassifications | | **(833)** | (362) |
| Currency translation adjustments | | **46** | (24) |
| Balance at end of year | | **14,714** | 13,178 |
| **Accumulated Impairment** | | | |
| Balance at beginning of year | | **734** | 681 |
| Impairment | *27, 32* | **738** | 682 |
| Disposals/reclassifications | | **(736)** | (626) |
| Currency translation adjustments | | **1** | (3) |
| Balance at end of year | | **737** | 734 |
| | | **P19,063** | P19,015 |

Noncurrent receivables and deposits include amounts owed by related parties amounting to P4,147 and P3,186 as at December 31, 2021 and 2020, respectively (Note 33) and the costs related to the development of the MRT 7 Project amounting to P27,299 and P23,157 as at December 31, 2021 and 2020, respectively (Note 34).

Noncurrent receivables and deposits are net of allowance for impairment losses amounting to P572 and P606 as at December 31, 2021 and 2020, respectively (Note 4).

Restricted cash represents:

i. SCPC's cash flow waterfall accounts amounting to P1,145 and P1,144 as at December 31, 2021 and 2020, respectively;

ii. The amount received from Independent Electricity Market Operator of the Philippines (IEMOP), totaling P491 as at December 31, 2021 and 2020, representing the proceeds of sale on WESM for a specific period in 2016, for the electricity generated from the excess capacity of the Sual Power Plant, 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 P187 and P148 as at December 31, 2021 and 2020, respectively;

iv. MPPCL's cash flow waterfall accounts and environmental guarantee fund, amounting to P56 and P2,133, as at December 31, 2021 and 2020, respectively;

v. Cash in bank maintained by MMSS3 and TADHC in accordance with the specific purposes and terms as required under certain loan agreements, amounting to P2,952 and P822 as at December 31, 2021 and 2020, respectively, of which P2,948 is included as part of "Prepaid expenses and other current assets" account under "Restricted cash - current" as at December 31, 2021 (Note 10);

vi. Cash in bank maintained by NCC and SCII in accordance with the specific purpose and term as required under its loan agreement, amounting to P88 and P78, respectively, as at December 31, 2021; and

vii. Rehabilitation funds established by NCC which are deposited with a local bank in compliance with DENR Administrative Order No. 2005-07 for environmental protection and enhancement amounting to P44 and P41 as at December 31, 2021 and 2020, respectively.

The methods and assumptions used to estimate the fair values of noncurrent receivables and deposits and restricted cash are discussed in Note 40.

"Others" include marketing assistance to dealers, deferred financing costs and other noncurrent prepaid expenses. In 2020, deferred financing costs representing loan facilitation fees and other filing and agency fees related to loans drawn totaling to P1,986 were reclassified as an addition to debt issue cost presented as a deduction from "Long-term debt" account in the consolidated statements of financial position (Note 21).

## 19. Loans Payable

Loans payable consist of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| **Parent Company** | | | |
| Peso-denominated | | **P51,450** | P23,950 |
| **Subsidiaries** | | | |
| Peso-denominated | | **122,445** | 108,684 |
| Foreign currency-denominated | | **16,884** | 8,011 |
| | *38, 39, 40* | **P190,779** | P140,645 |

Loans payable mainly represent unsecured peso and foreign currency-denominated amounts obtained from local and foreign banks. Interest rates per annum for peso-denominated loans ranged from 1.97% to 3.00% and 0.92% to 6.75% in 2021 and 2020, respectively. Interest rates per annum for foreign currency-denominated loans ranged from 1.18% to 4.64% and 1.27% to 4.64% in 2021 and 2020, respectively (Note 30).

Loans payable include interest-bearing amounts payable to BOC amounting to P6,994 and P8,200 as at December 31, 2021 and 2020, respectively (Note 33).

## 20. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Trade | *34* | **P88,970** | P65,797 |
| Non-trade | | **81,053** | 62,970 |
| Customers' deposits | *3* | **8,445** | 7,697 |
| Accrued payroll | | **6,565** | 6,022 |
| Accrued interest payable | | **3,394** | 3,579 |
| Amounts owed to related parties | *33* | **2,666** | 2,804 |
| Derivative liabilities | *39, 40* | **1,247** | 1,731 |
| Deferred liability on consumer loyalty program | | **814** | 1,406 |
| Retention payable | | **482** | 534 |
| Current portion of IRO | *4* | **435** | 425 |
| Retirement liabilities | *35* | **187** | 160 |
| Deferred rent income | | **57** | 65 |
| Redeemable preferred shares | *4* | **19** | 19 |
| Others | | **245** | 40 |
| | *39, 40* | **P194,579** | P153,249 |

Trade payables are non-interest bearing and are generally on a 30 to 60-day term.

Non-trade payables include contract growers/breeders' fees, guarantee deposits, utilities, rent and other expenses payable to third parties.

*Redeemable Preferred Shares.* These represent the preferred shares of TADHC issued in 2010. The preferred shares are cumulative, non-voting, redeemable and with liquidation preference. The shares are preferred as to dividends, which are given in the form of coupons, at the rate of 90% of the applicable base rate (i.e., one year Bloomberg Valuation or BVAL). The dividends are cumulative from and after the date of issue of the preferred shares, whether or not in any period the amount is covered by available unrestricted retained earnings.

The preferred shares are required to be redeemed at the end of the 10-year period from and after the issuance of the preferred shares by paying the principal amount, plus all unpaid coupons (at the sole option of TADHC, the preferred shares may be redeemed earlier in whole or in part).

In the event of liquidation, dissolution, bankruptcy or winding up of the affairs of TADHC, the holders of the preferred shares are entitled to be paid in full, an amount equivalent to the issue price of such preferred shares plus all accumulated and unpaid dividends up to the current dividend period or proportionately to the extent of the remaining assets of TADHC, before any assets of TADHC will be paid or distributed to the holders of the common shares.

As at December 31, 2021 and 2020, the preferred shares remain outstanding as other requirements prior to redemption are pending from the shareholder.

"Others" include ARO, accruals for materials, repairs and maintenance, advertising, handling, contracted labor, supplies and various other payables.

The methods and assumptions used to estimate the fair value of derivative liabilities are discussed in Note 40.

## 21. Long-term Debt

Long-term debt consists of:

| | 2021 | 2020 |
|---|---|---|
| **Parent Company** | | |
| Peso-denominated Bonds: | | |
| Fixed interest rate of 4.8243% and 5.1923%, 6.25%, 5.284% and 5.55%, 6.625%, 5.7613%, and 7.125% maturing in 2022, 2023, 2024, 2025, 2027 and 2028, respectively (a) | **P59,748** | P59,622 |
| Fixed interest rate of 3.3832% maturing in 2027 (b) | **29,640** | - |
| Peso-denominated Term Notes: | | |
| Fixed interest rate of 6.9375% with maturities up to 2026 (c) | **15,517** | 15,661 |
| Foreign currency-denominated Term Notes: | | |
| Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2024 (d) | **100,417** | 93,914 |
| Floating interest rate based on LIBOR plus margin, maturing in 2026 (e) | **21,887** | - |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (f) | **20,278** | 18,991 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (g) | **15,211** | 14,261 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (h) | **15,194** | 14,244 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (i) | **10,127** | 9,494 |
| Floating interest rate based on LIBOR plus margin, maturing in 2026 (j) | **5,020** | - |
| Floating interest rate based on LIBOR plus margin, maturing in 2024 (k) | **4,561** | 10,489 |
| Fixed interest rate of 4.875% (l) | **-** | 24,706 |
| | **297,600** | 261,382 |
| **Subsidiaries** | | |
| Peso-denominated Bonds: | | |
| Fixed interest rate of 5.3750%, 6.7500%, 6.2500% and 6.6250% maturing in 2022, 2023, 2024 and 2027, respectively (m) | **34,845** | 34,770 |
| Fixed interest rate of 6.8350%, 7.1783% and 7.6000% maturing in 2022, 2024 and 2026, respectively (n) | **29,857** | 29,759 |
| Fixed interest rate of 4.5219%, 7.8183% and 8.0551% maturing in 2023, 2024 and 2025, respectively (o) | **26,846** | 39,776 |
| Fixed interest rate of 3.4408% and 4.3368% maturing in 2025 and 2027, respectively (p) | **17,779** | - |
| Fixed interest rate of 5.05% and 5.25% maturing in 2025 and 2027, respectively (q) | **14,860** | 14,829 |
| Fixed interest rate of 4.7575% and 5.1792% maturing in 2023 and 2026, respectively (r) | **8,808** | 14,941 |
| Fixed interest rate of 6.60% maturing in 2022 (s) | **6,998** | 6,988 |
| Fixed interest rate of 5.5796% and 6.4872% maturing in 2022 and 2025, respectively (t) | **4,885** | 4,877 |
| Fixed interest rate of 6.00% maturing in 2024 (u) | **2,531** | 14,984 |

*Forward*

| | 2021 | 2020 |
|---|---|---|
| Peso-denominated Term Notes: | | |
| Fixed interest rate of 5.556%, 5.825% and 5.997% with maturities up to 2029 (v) | **P38,407** | P26,800 |
| Fixed interest rate of 6.2836%, 6.5362% and 7.3889% with maturities up to 2029 (w) | **37,626** | 39,843 |
| Fixed interest rate of 6.865% to 9.8754% with maturities up to 2027 (x) | **29,049** | 30,049 |
| Fixed interest rate of 6.5077% and 7.7521% with maturities up to 2030 (y) | **17,154** | 18,412 |
| Fixed interest rate of 6.9265% with maturities up to 2024 (z) | **14,341** | 14,468 |
| Fixed interest rate of 3.80%, 3.875%, 3.95% and 4.15% with maturities up to 2028 (aa) | **11,906** | - |
| Fixed interest rate of 5.6276% with maturities up to 2029 (bb) | **11,116** | 11,516 |
| Fixed interest rate of 4.63% maturing in 2024 (cc) | **9,953** | 9,939 |
| Fixed interest rate of 3.5483% maturing in 2029 (dd) | **9,938** | 9,932 |
| Fixed interest rate of 3.846% maturing in 2026 (ee) | **6,950** | - |
| Fixed interest rate of 4.8356% with maturities up to 2031 (ff) | **6,853** | - |
| Fixed interest rate of 5.5276% with maturities up to 2024 (gg) | **5,878** | 8,008 |
| Fixed interest rate of 5.00% with maturities up to 2025 (hh) | **4,925** | - |
| Fixed interest rate of 6.37239% with maturities up to 2028 (ii) | **4,762** | - |
| Fixed interest rate of 4.59% with maturities up to 2025 (jj) | **4,356** | 4,970 |
| Fixed interest rate of 6.7495%, 6.7701%, 7.165%, 7.5933% and 7.6567% with maturities up to 2025 (kk) | **4,070** | 5,003 |
| Fixed interest rate of 7.1243%, 7.4022%, 7.9812% and 8.5885% with maturities up to 2030 (ll) | **3,921** | 4,064 |
| Fixed interest rate of 5.1657% with maturities up to 2025 (mm) | **3,692** | 4,419 |
| Fixed interest rate of 5.7584% with maturities up to 2022 (nn) | **2,497** | 4,990 |
| Fixed interest rate of 3.2837%, with maturities up to 2026 (oo) | **1,989** | 1,987 |
| Fixed interest rate of 4.20% maturing in 2026 (pp) | **1,986** | - |
| Fixed interest rate of 5.4583% with maturities up to 2022 (qq) | **1,000** | 1,998 |
| Fixed interest rate of 6.6583% with maturities up to 2023 (rr) | **860** | 1,342 |
| Fixed interest rate of 4.2105% with maturities up to 2023 (ss) | **331** | 496 |
| Fixed interest rate of 5.00% (tt) | **-** | 1,499 |
| Floating interest rate based on BVAL plus margin, or BSP overnight rate plus margin, whichever is higher, with maturities up to 2029 (dd) | **7,950** | 7,944 |
| Floating interest rate based on BVAL plus margin, with maturities up to 2023 (uu) | **2,049** | 3,216 |
| Floating interest rate based on BVAL plus margin, with maturities up to 2024 (vv) | **1,753** | 1,909 |

*Forward*

| | | 2021 | 2020 |
|---|---|---|---|
| Floating interest rate based on BVAL plus margin, with maturities up to 2022 (ww) | | **P1,378** | P1,879 |
| Foreign currency-denominated Term Notes: | | | |
| Fixed interest rate of 4.7776% and 5.5959%, with maturities up to 2023 and 2030, respectively (xx/yy) | | **24,488** | 25,597 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (zz) | | **25,337** | 33,306 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (aaa) | | **22,992** | 32,334 |
| Floating interest rate based on LIBOR plus margin, maturing in 2026 (bbb) | | **14,949** | - |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2023 and 2030 (xx/yy) | | **8,087** | 8,457 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (ccc) | | **7,522** | 7,003 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2022 (ddd) | | **7,219** | 13,530 |
| Floating interest rate based on LIBOR plus margin, with maturities up to 2025 (eee) | | **6,556** | 6,845 |
| Floating interest rate based on LIBOR plus margin, maturing in 2023 (fff) | | **2,504** | - |
| Floating interest rate based on Bank Bill Swap Rate (BBSY) plus margin, with maturities up to 2024 (ggg) | | **2,470** | 2,827 |
| Floating interest rate based on BBSY plus margin, with maturities up to 2026 (hhh) | | **142** | - |
| Floating interest rate based on Cost of Fund (COF) plus margin (iii) | | **-** | 21 |
| | | **516,365** | 505,527 |
| | *38, 39, 40* | **813,965** | 766,909 |
| Less current maturities | | **88,857** | 74,502 |
| | | **P725,108** | P692,407 |

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

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

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

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

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

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

Unamortized debt issue costs amounted to P252 and P378 as at December 31, 2021 and 2020, respectively.

b. The amount represents the first tranche of the P50,000 shelf registered fixed rate bonds issued by the Parent Company amounting to P30,000. The Bonds were listed in the PDEx.

The first tranche of the fixed rate bonds listed on July 8, 2021 comprise of Series I Bonds, due in 2027 with an interest rate of 3.3832% per annum and with a put option on the part of the bondholder on the third anniversary of its issue date. Interest is payable every 8th of January, April, July and October of each year.

Proceeds from the issuance of the bonds were used to repay existing obligations.

Unamortized debt issue costs amounted to P360 as at December 31, 2021.

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

The Parent Company paid the scheduled amortizations amounting to P400 and P240 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P83 and P99 as at December 31, 2021 and 2020, respectively.

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

Unamortized debt issue costs amounted to P1,581 and P2,132 as at December 31, 2021 and 2020, respectively.

e. The amount represents the drawdown by the Parent Company of US$250 and US$200 on October 28 and December 23, 2021, respectively, from its term loan facility amounting to US$900. The term of the loan is for five years and is subject to a floating interest rate. The proceeds were and will be used for general corporate purposes.

Unamortized debt issue costs amounted to P1,062 as at December 31, 2021.

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

Unamortized debt issue costs amounted to P121 and P218 as at December 31, 2021 and 2020, 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 P89 and P146 as at December 31, 2021 and 2020, 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 purposes.

Unamortized debt issue costs amounted to P106 and P163 as at December 31, 2021 and 2020, 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 P73 and P111 as at December 31, 2021 and 2020, respectively.

j. The amount represents the drawdown by the Parent Company on December 23, 2021 from its term loan facility amounting to US$100. The term of the loan is for five years and is subject to a floating interest rate. The proceeds of the loan were used for general corporate purposes.

Unamortized debt issue costs amounted to P80 as at December 31, 2021.

k. 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.

Payments made amounted to $210 and $80 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P29 and P75 as at December 31, 2021 and 2020, respectively.

l. 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 at the Singapore Exchange Securities Trading Ltd. (SGX-ST), with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing of US dollar-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.

The Parent Company redeemed the Notes on April 26, 2021.

Unamortized debt issue costs amounted to P92 as at December 31, 2020.

m. The amount represents the first and second tranche of the P35,000 shelf registered fixed rate bonds (the "Bonds") issued by SMC Global amounting to P20,000 on December 22, 2017 and P15,000 on August 17, 2018, respectively. The Bonds were listed in the PDEx.

- The first tranche of the fixed rate bonds listed on December 22, 2017 amounting to P20,000, consists of: (i) five-year Series D Bonds, due in 2022 with an interest rate of 5.3750% per annum; (ii) seven-year Series E Bonds, due in 2024 with an interest rate of 6.2500% per annum; and, (iii) 10-year Series F Bonds, due in 2027 with an interest rate of 6.6250% per annum. Interest is payable every 22nd of March, June, September and December of each year.

- The second tranche of the fixed rate bonds listed on August 17, 2018 amounting to P15,000 pertains to the five-year Series G Bonds, due in 2023 with an interest rate of 6.7500% per annum. Interest is payable every 17th of February, May, August and November of each year.

Proceeds from the first tranche were used to refinance peso-denominated short-term loans.

Proceeds from the second tranche were used to refinance the outstanding shareholder advances and partially refinance existing US dollar-denominated loan obligations and payment of transaction-related expenses.

Unamortized debt issue costs amounted to P155 and P230 as at December 31, 2021 and 2020, respectively.

n. The amount represents the first tranche of the P60,000 shelf registered fixed rate bonds (the "Bonds") issued by SMC Global amounting to P30,000 on April 24, 2019. The Bonds were listed in the PDEx.

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

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

Unamortized debt issue costs amounted to P143 and P241 as at December 31, 2021 and 2020, respectively.

o. 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, repay short-term loans and for general corporate purposes.

The proceeds from the second tranche were used for the payment of short-term loans, redemption of a portion of Petron's Undated Subordinated Capital Securities (USCS) and for general corporate purposes.

On October 27, 2021, Petron redeemed the Series A Bonds amounting to P13,000.

Unamortized debt issue costs amounted to P154 and P224 as at December 31, 2021 and 2020, respectively.

p. The amount represents the first tranche of the P50,000 shelf registered fixed rate bonds (the "Bonds") issued by Petron amounting to P18,000 on October 12, 2021. The Bonds were listed in the PDEx.

The first tranche of the fixed rate bonds amounting to P18,000, consist of four-year Series E Bonds, due in 2025 with an interest rate of 3.4408% per annum and six-year Series F Bonds, due in 2027 with an interest rate of 4.3368% per annum. Interest is payable every 12th of January, April, July and October of each year.

The proceeds were used primarily for the redemption of its outstanding Series A Bonds, partial financing of the power plant project and payment of existing indebtedness.

Unamortized debt issue costs amounted to P221 as at December 31, 2021.

q. The amount represents the P15,000 fixed rate bonds (the "Bonds") issued by SMFB on March 10, 2020, divided into Series A Bonds, due in 2025 with an interest rate of 5.05% per annum, and Series B Bonds, due in 2027 with an interest rate of 5.25% per annum. Interest is payable every 10th of March, June, September and December of each year. The Bonds were listed in the PDEx.

Proceeds from the issuance were used to redeem the outstanding Series "2" Perpetual Preferred Shares of SMFB and payment of transaction-related fees, costs and expenses.

Unamortized debt issue costs amounted to P140 and P171 as at December 31, 2021 and 2020, respectively.

r. 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 12, 2021, SMC Global redeemed the Series A Bonds amounting to P6,153.

Unamortized debt issue costs amounted to P39 and P59 as at December 31, 2021 and 2020, 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.

The Series E Bonds with a principal of P10,000 was redeemed by SMB on April 12, 2019.

Unamortized debt issue costs amounted to P2 and P12 as at December 31, 2021 and 2020, respectively.

t. The amount represents P7,300 fixed rate bonds (the "Bonds") issued by SMC SLEX 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 the peso-denominated Corporate Notes drawn in 2012.

The Bonds were listed in the PDEx.

The Series A Bonds with a principal of P2,400 was redeemed by SMC SLEX on August 24, 2020.

Unamortized debt issue costs amounted to P15 and P23 as at December 31, 2021 and 2020, respectively.

u. 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 Bonds and Series H Bonds issuance were used to partially refinance the redemption of Series B Bonds.

The Bonds were listed in the PDEx.

The Series G Bonds with an aggregate principal amount of P12,462 matured on April 5, 2021 (April 2 being a non-business day) and were accordingly redeemed by SMB on the same date.

Unamortized debt issue costs amounted to P7 and P16 as at December 31, 2021 and 2020, respectively.

v. The amount represents the loan drawn by SMC Tollways from its P41,200 Corporate Notes Facility Agreement dated December 9, 2019 with various local banks amounting to P41,200 and P28,300 as at December 31, 2021 and 2020, respectively.

Proceeds of the loan were mainly used to refinance existing debt obligations, invest and/or advance for infrastructure projects, for general corporate purposes and to finance transaction related fees, taxes and expenses. The loan is payable in 40 quarterly installments commencing on the third month from initial issue date. Final repayment date is 10 years from initial issue date.

The Notes are subject to repricing on the fifth year from initial issue date.

Payments made amounted to P2,327 and P1,140 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P466 and P360 as at December 31, 2021 and 2020, respectively.

w. The amount represents the drawdown by SCPC from its P44,000 Omnibus Loan and Security Agreement (OLSA) dated June 22, 2017 with various banks, consisting of Tranche A and Tranche B amounting to P42,000 and the remaining balance of Tranche B amounting to P2,000 on June 28, 2017 and January 31, 2018, respectively.

Proceeds from the loan were used for the settlement of the US$360 short-term loan, acquisition of the Phase II Limay Greenfield Power Plant in Limay, Bataan from LETI, repayment of shareholder advances and financing of transaction costs relating to the OLSA. The loan is payable in 46 unequal quarterly installments commencing on the 9th month from initial advance for Tranche A, 36 unequal quarterly installments commencing on the 39th month from initial advance for Tranche B. Final repayment date is 12 years from initial advance.

The loan is subject to repricing on the seventh year from the date of initial advance.

Payments made amounted to P5,905 and P3,610 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P469 and P547 as at December 31, 2021 and 2020, respectively.

x. The amount represents loan drawn by MMSS3 from its P31,000 OLSA dated December 15, 2014 with various banks.

Proceeds of the loan were used to partially finance the design, construction and the operation and maintenance of the Skyway Stage 3 Project. The loan is payable in 35 unequal consecutive quarterly installments starting on the earlier of March 30, 2020 or one quarter after issuance of toll operation certificate by TRB. Final repayment date is 12 years after initial drawdown date.

Payments made amounted to P1,733 and P679 as at December 31, 2021 and 2020, respectively.

The drawdown includes payable to BOC amounting to P3,493 and P3,619 as at December 31, 2021 and 2020, respectively (Note 33).

Unamortized debt issue costs amounted to P218 and P272 as at December 31, 2021 and 2020, respectively.

y. The amount represents loan drawn by SMCPC from its P21,300 12-year OLSA dated August 9, 2018 with various banks.

The proceeds were used by SMCPC for the repayment of the short-term loan used to fund the design, construction and operation of the Davao Greenfield Power Plant and payment of transaction-related fees and expenses.

Payments made amounted to P3,888 and P2,592 as at December 31, 2021 and 2020, respectively.

The drawdown includes payable to BOC amounting to P2,616 and P2,811 as at December 31, 2021 and 2020, respectively (Note 33).

Unamortized debt issue costs amounted to P258 and P296 as at December 31, 2021 and 2020, respectively.

z. The amount represents the drawdown by SMC Global on April 26, 2017 from its term loan facility amounting to P15,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9265% per annum, payable quarterly. The proceeds were used for debt refinancing.

Payments made amounted to P600 and P450 pursuant to the loan agreement as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P59 and P82 as at December 31, 2021 and 2020, respectively.

aa. The amount represents the loan drawn by SMB on March 30, 2021 from its loan facilities amounting to P12,000 with various banks. The loans are subject to fixed interest rates, where P10,000 will mature on March 30, 2026 and P2,000 will mature on March 30, 2028. The proceeds of the loan were used to refinance the redemption of Series G Bonds.

Payments made amounted to P16 as at December 31, 2021.

Unamortized debt issue costs amounted to P78 as at December 31, 2021.

bb. The amount represents the drawdown by SMCTC on December 19, 2019 amounting to P12,000 from its P42,000 Second Amendment to the OLSA dated December 16, 2019 with various local banks.

Proceeds of the loan were used for consolidation of project loans, releveraging the project, repayment of certain shareholder advance and partial financing of operation and maintenance of the project. The loan is payable in 39 quarterly installments commencing on the third month from initial drawdown. Final repayment date is 11 years and 9 months from initial drawdown.

The loan is subject to repricing on the fifth year from date of initial drawdown.

Payments made amounted to P780 and P360 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P104 and P124 as at December 31, 2021 and 2020, respectively.

cc. The amount represents the drawdown by SMB on December 19, 2019 from its term loan facility amounting to P10,000. The loan will mature on December 26, 2024 and is subject to a fixed interest rate of 4.63% per annum. The proceeds were used for general corporate purposes.

Unamortized debt issue costs amounted to P47 and P61 as at December 31, 2021 and 2020, respectively.

dd. The amount represents the loan drawn by SMFI amounting to P8,000 and P10,000 in 2020 and 2019, respectively, from its term loan facility amounting to P18,000. The loan is amortized for 10 years and is subject to a floating interest rate based on BVAL plus margin or BSP Term Deposit Auction Facility overnight rate plus margin, whichever is higher with a one-time option to convert to a fixed interest rate. The proceeds were used to refinance its existing short-term obligations, fund capital expansion projects and for other general corporate purposes.

On December 14, 2020, SMFI exercised its one-time option to convert to fixed interest rate for its P10,000 loan.

Unamortized debt issue costs for the fixed interest loan amounted to P62 and P68 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs for the floating interest amounted to P50 and P56 as at December 31, 2021 and 2020, respectively.

ee. The amount represents the drawdown by PF-Hormel on September 29, 2021 from its loan facilities amounting to P7,000 with various banks. The loans will mature on September 29, 2026 and is subject to a fixed interest rate of 3.846% per annum. The proceeds of the loan were used for refinancing of existing indebtedness and general corporate purposes.

Unamortized debt issue costs amounted to P50 as at December 31, 2021.

ff. The amount represents the loan drawn by SMNCI on June 30, 2021 amounting to P7,075, from its P12,500 OLSA dated June 22, 2021 with various banks.

The loan is subject to a fixed interest rate of 4.8356% per annum and is payable in 34 unequal quarterly installments commencing on the seventh quarter from initial advance. Final repayment date is ten years from initial advance.

Proceeds of the loan were used to partially finance the development, design, construction, completion and operation of the cement plant in Sison, Pangasinan, repay the reimbursable sponsor advances and finance the transaction costs, other taxes, costs and operation expenses and other financing costs incurred in availing the loan.

On July 1, 2021, the balance of the loan was transferred to NCC following the merger (Note 5).

The drawdown includes payable to BOC amounting to P1,245 as at December 31, 2021 (Note 33).

Unamortized debt issue costs amounted to P222 as at December 31, 2021.

gg. 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 P9,107 and P6,965 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P15 and P27 as at December 31, 2021 and 2020, respectively.

hh. The amount represents the drawdown by SMC Global on May 28, 2021 from its term loan facility amounting to P5,000. The loan will mature on May 28, 2025 and is subject to a fixed interest rate of 5.00% per annum payable quarterly. The proceeds were used for general corporate purposes.

Payments made amounted to P25 as at December 31, 2021.

Unamortized debt issue costs amounted to P50 as at December 31, 2021.

ii. The amount represents loan drawn by SCII on December 29, 2021 from its P4,800 OLSA dated December 22, 2021 with various local banks.

The loan is subject to a fixed interest rate of 6.37239% and is payable in 23 unequal quarterly installments commencing on the 6th quarter from initial advance. Final repayment date is seven years from initial advance.

Proceeds of the loan were used to partially finance the development, design, construction, completion and operation of the cement grinding facility with cement packing and pier facilities of SCII in Davao.

The drawdown includes payable to BOC amounting to P2,000 as at December 31, 2021 (Note 33).

Unamortized debt issue costs amounted to P38 as at December 31, 2021.

jj. The amount represents the drawdown by Petron on April 27, 2020 from its term loan facility amounting to P5,000. The loan is amortized over five years and is subject to a fixed interest rate of 4.59% per annum payable quarterly. The proceeds were used for general corporate purposes.

Payments made amounted to P625 as at December 31, 2021.

Unamortized debt issue costs amounted to P19 and P30 as at December 31, 2021 and 2020, respectively.

kk. The amount represents the drawdown by SMC NAIAX amounting to P1,100 and P6,400 in 2016 and 2015, respectively, from its P7,500 OLSA dated July 8, 2014. Proceeds of the loan were used to finance the construction of the NAIA Expressway. The loan is payable in 32 unequal consecutive quarterly installments commencing on the period ending the earlier of 24 months from initial drawdown date or the date of the issuance by the TRB of the Toll Operations Certificate. Final repayment date is 10 years after initial drawdown date.

The drawdown includes payable to BOC amounting to P1,090 and P1,342 as at December 31, 2021 and 2020, respectively (Note 33).

Payments made amounted to P3,412 and P2,469 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P18 and P28 as at December 31, 2021 and 2020, respectively.

ll. The amount represents the drawdown by LCWDC in 2018 of the first tranche 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 P252 and P105 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P27 and P31 as at December 31, 2021 and 2020, respectively.

mm. The amount represents the drawdown by SMYPC from its term loan facility amounting to P5,000. The loan will mature on January 30, 2025 and is subject to a fixed interest rate of 5.1657% per annum payable quarterly. The proceeds were used to refinance existing short-term loans.

Payments made amounted to P1,289 and P553 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P19 and P28 as at December 31, 2021 and 2020, respectively.

nn. The amount represents the drawdown by Petron on December 29, 2017 from its term loan facility amounting to P10,000. The loan is amortized over five years and is subject to a fixed interest rate of 5.7584% per annum payable quarterly. The proceeds were used to finance working capital requirements.

Payments made amounted to P7,500 and P5,000 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P3 and P10 as at December 31, 2021 and 2020, respectively.

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

On December 19, 2020, SMMI exercised its option to convert the interest rate from floating to fixed. As a result, the interest rate was fixed at 3.2837% per annum.

Unamortized debt issue costs amounted to P11 and P13 as at December 31, 2021 and 2020, respectively.

pp. The amount represents the drawdown by SMCSLC on July 14, 2021 from its term loan facilities amounting to P2,000 with various banks. The loan will mature on July 14, 2026 and is subject to a fixed interest rate of 4.20% per annum payable quarterly. The proceeds were used to refinance existing indebtedness and for general corporate purposes.

Unamortized debt issue costs amounted to P14 as at December 31, 2021.

qq. 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 purposes.

Payments made amounted to P4,000 and P3,000 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P2 as at December 31, 2020.

rr. The amount represents the P3,500 loan facility with local banks, entered into by SIDC in 2013. The proceeds of the loan were used to refinance its existing debt and to finance the construction and development of Stage II, Phase II of the STAR Project. Repayment period is within 32 unequal consecutive quarterly

installments on each repayment date in accordance with the agreement beginning on the earlier of the 27th month from initial drawdown date or the third month from the date of receipt by SIDC of the financial completion certificate for the Project.

Payments made amounted to P2,638 and P2,154 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P2 and P4 as at December 31, 2021 and 2020, respectively.

ss. The amount represents drawdown by GSMI on December 28, 2020 from its term-loan facility amounting to P500. The loan is amortized over three years and is subject to a fixed interest rate of 4.2105% per annum payable quarterly. The proceeds were used for general corporate purposes.

Payments made amounted to P167 as at December 31, 2021.

Unamortized debt issue costs amounted to P2 and P4 as at December 31, 2021 and 2020, respectively.

tt. 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.

The loan was fully paid on July 15, 2021.

Unamortized debt issue costs amounted to P1 as at December 31, 2020.

uu. The amount represents drawdown of SMYAC from its term loan facility amounting to P4,000. The term of the loan is for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project.

On March 1, 2020, the balance of the loan was transferred to SMYPC following the merger (Note 5).

Payments made amounted to P1,947 and P773 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P4 and P11 as at December 31, 2021 and 2020, respectively.

vv. The amount represents drawdowns by SMYAC of P1,449 and P551 in 2020 and 2019, respectively from its term loan facility amounting to P2,000. The loan is amortized for five years and is subject to a floating interest rate payable quarterly. The proceeds were used to finance the capital expenditure in relation to Line 3 of the glass manufacturing plant project.

On March 1, 2020, the balance of the loan was transferred to SMYPC following the merger (Note 5).

Payments made amounted to P240 and P80 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P7 and P11 as at December 31, 2021 and 2020, respectively.

ww. The amount represents series of drawdowns in 2014 and 2013, from a loan agreement entered into by TADHC with BOC amounting to P3,300, used for financing the Airport Project. The loan is payable in 28 quarterly installments commencing on the 12th quarter.

TADHC paid P1,921 and P1,419 as at December 31, 2021 and 2020, respectively, as partial settlement of the loan principal (Note 33).

Unamortized debt issue costs amounted to P1 and P2 as at December 31, 2021 and 2020, respectively.

xx. The amount represents the total outstanding loan drawn in various tranches by MPPCL from its Omnibus Refinancing Agreement 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$129 and US$163 as at December 31, 2021 and 2020, respectively, and floating interest tranche based on LIBOR plus margin amounting to US$43 and US$54 as at December 31, 2021 and 2020, respectively. The loan will mature on January 23, 2023.

Unamortized debt issue costs amounted to P2 and P7 as at December 31, 2021 and 2020, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P1 and P2 as at December 31, 2021 and 2020, respectively, for the floating interest tranche.

yy. The amount represents total outstanding loan drawn in various tranches by MPPCL from its Omnibus Expansion Financing Agreement 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$356 and US$376 as at December 31, 2021 and 2020, respectively, and floating interest tranche based on LIBOR plus margin amounting to US$117 and US$124 as at December 31, 2021 and 2020, respectively. The loan will mature on December 16, 2030.

Unamortized debt issue costs amounted to P247 and P271 as at December 31, 2021 and 2020, respectively, for the fixed interest tranche.

Unamortized debt issue costs amounted to P81 and P90 as at December 31, 2021 and 2020, respectively, for the floating interest tranche.

zz. The amount represents the balance of the US$700 term loan facility availed by SMC Global on March 16, 2018. The US$700 term loan facility is divided into Facility A Loan amounting to US$200 maturing on March 12, 2021 and Facility B Loan amounting to US$500 maturing on March 13, 2023. The proceeds were used to partially finance the acquisition of the Masinloc Group.

SMC Global fully paid the Facility A Loan using the proceeds from its US$200 term loan availed on the same date.

Unamortized debt issue costs amounted to P163 and P310 as at December 31, 2021 and 2020, respectively.

aaa. In May and July 2019, Petron availed of US$536 and US$264 loans, respectively, from its US$800 term loan facility. The loan is amortized for five years with a two-year grace period and subject to a floating interest rate. The proceeds were used to refinance Dollar-denominated and Peso-denominated bilateral short-term loans, to partially prepay its existing US$1,000 term loan and for general corporate purposes.

Payments made amounted to US$343 and US$115 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P315 and P562 as at December 31, 2021 and 2020, respectively.

bbb. The amount represents the US$200 five-year term loan drawn by SMC Global on March 12, 2021 from a US$200 Facility Agreement with a syndicate of foreign banks executed on March 9, 2021. The loan is subject to a floating interest rate based on LIBOR plus margin and will mature in March 2026. The proceeds were used as repayment of Facility A Loan of US$700 term loan facility.

On June 7, 2021, SMC Global availed an additional US$100 term loan from its Syndication Agreement executed on May 21, 2021. The Syndication Agreement amended the Facility Agreement dated March 9, 2021, increasing the loan facility from US$200 to US$300. The proceeds were used mainly for the redemption of Series A Bonds in July 2021.

Unamortized debt issue costs amounted to P351 as at December 31, 2021.

ccc. The amount represents the drawdown by Petron on August 26, 2020 from its term loan facility amounting to US$150 with various banks. The loan is amortized for three years and is subject to a floating interest rate based on LIBOR plus margin payable (1, 3, or 6) months as selected by the borrower. The proceeds were used to prepay part of the existing US$1,000 term loan facility and US$800 loan.

Unamortized debt issue costs amounted to P128 and P201 as at December 31, 2021 and 2020, respectively.

ddd. 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$858 and US$715 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P37 and P170 as at December 31, 2021 and 2020, respectively.

eee. The amount represents the drawdown by Petron on April 22, 2020 from its term loan facility amounting to JPY15,000 with various banks. The loan is amortized over five years and is subject to a floating interest rate based on JPY LIBOR plus a spread payable every 1, 3 or 6 months as selected by the borrower. The proceeds of the loan were used to partially prepay its US$1,000 term loan facility.

Unamortized debt issue costs amounted to P91 and P142 as at December 31, 2021 and 2020, respectively.

fff. The amount represents the drawdown by SMC Global on April 12, 2021 from its term loan facility amounting to US$50. The term of the loan is for three years and is subject to a floating interest rate based on LIBOR plus margin payable 1/3/6 months as selected by the borrower.

The proceeds were used to finance the capital expenditures of the Ilijan Natural Gas-fired Power Plant (including expansion projects related thereto); the liquid natural gas import, storage and distribution facilities; pre-operating and operating working capital requirements for Battery Energy Storage Systems (BESS) projects, and transaction-related fees, costs and expenses of the facility.

Unamortized debt issue costs amounted to P46 as at December 31, 2021.

ggg. The amount represents the drawdown by SMYA on July 31, 2019 amounting to AU$80 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.

Payments made amounted to AU$13 and AU$3 as at December 31, 2021 and 2020, respectively.

Unamortized debt issue costs amounted to P24 and P36 as at December 31, 2021 and 2020, respectively.

hhh. The amount represents the loan drawn by SMYA on February 25, 2021 amounting to AU$5. 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.

Payments made amounted to AU$1 as at December 31, 2021.

iii. 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 due on July 31, 2021 and the last one due on October 31, 2027.

The loan was fully paid as at December 31, 2021.

The gross amount of long-term debt payable to BOC amounted to P11,823 and P9,653 as at December 31, 2021 and 2020, respectively (Note 33).

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, 2021 and 2020.

Long-term debt includes syndicated project finance loans amounting to P148,811 and P144,608 as at December 31, 2021 and 2020, respectively, which were secured by certain property, plant and equipment and other intangible assets (Notes 13 and 17).

The movements in debt issue costs are as follows:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Balance at beginning of year | | **P8,249** | P7,345 |
| Additions | *18* | **2,746** | 3,308 |
| Amortization | *30* | **(2,630)** | (2,282) |
| Reclassification, capitalized and others | | **146** | (122) |
| Balance at end of year | | **P8,511** | P8,249 |

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

| **Year** | **Gross Amount** | **Debt Issue Costs** | **Net** |
|---|---|---|---|
| 2022 | P89,610 | P753 | P88,857 |
| 2023 | 179,259 | 1,607 | 177,652 |
| 2024 | 212,083 | 2,789 | 209,294 |
| 2025 | 58,333 | 547 | 57,786 |
| 2026 and thereafter | 283,191 | 2,815 | 280,376 |
| **Total** | **P822,476** | **P8,511** | **P813,965** |

Contractual terms of the Group's interest-bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 39.

## 22. Other Noncurrent Liabilities

Other noncurrent liabilities consist of:

| | *Note* | **2021** | 2020 |
|---|---|---|---|
| Retirement liabilities - noncurrent | *5, 35* | **P6,843** | P6,734 |
| Retention payable - noncurrent | | **5,510** | 3,243 |
| ARO | *4* | **3,648** | 3,735 |
| IRO | *4* | **772** | 730 |
| Derivative liabilities - noncurrent | *4, 39, 40* | **745** | 2,167 |
| Cylinder deposits | | **687** | 617 |
| Cash bonds | | **450** | 947 |
| Concession liabilities | | **88** | 91 |
| Obligation to ROP - service concession agreement | *4, 34* | **58** | 66 |
| Amounts owed to related parties | *33* | **53** | 7,277 |
| MRO | *4, 5* | **47** | 46 |
| Others | | **1,058** | 648 |
| | *39, 40* | **P19,959** | P26,301 |

"Others" include customers' deposits, deferred rent income and liability to contractor and supplier.

## 23. Income Taxes

The components of income tax expense are shown below:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Current | **P14,258** | P15,540 | P22,691 |
| Deferred | **3,535** | (9) | 5,822 |
| | **P17,793** | P15,531 | P28,513 |

The movements of deferred tax assets and liabilities are accounted for as follows:

| 2021 | 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 | **P4,742** | **(P1,992)** | **P -** | **P2** | **P2,752** |
| MCIT | **1,137** | **(92)** | **-** | **-** | **1,045** |
| NOLCO | **10,852** | **(2,478)** | **-** | **-** | **8,374** |
| Undistributed net earnings of foreign subsidiaries | **(962)** | **116** | **-** | **-** | **(846)** |
| Leases | **(17,104)** | **(2,278)** | **-** | **338** | **(19,044)** |
| Unrealized intercompany charges and others | **(5,468)** | **3,189** | **(1,198)** | **(405)** | **(3,882)** |
| | **(P6,803)** | **(P3,535)** | **(P1,198)** | **(P65)** | **(P11,601)** |

| 2020 | Balance at January 1 | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Others | Balance at December 31 |
|---|---|---|---|---|---|
| Allowance for impairment losses on trade and other receivables and inventory | P4,615 | P145 | P - | (P18) | P4,742 |
| MCIT | 876 | 261 | - | - | 1,137 |
| NOLCO | 1,750 | 9,102 | - | - | 10,852 |
| Undistributed net earnings of foreign subsidiaries | (1,040) | (64) | 37 | 105 | (962) |
| Leases | (11,233) | (5,860) | - | (11) | (17,104) |
| Unrealized intercompany charges and others | (2,181) | (3,575) | 93 | 195 | (5,468) |
| | (P7,213) | P9 | P130 | P271 | (P6,803) |

The above amounts are reported in the consolidated statements of financial position as follows:

| | *Note* | 2021 | 2020 |
|---|---|---|---|
| Deferred tax assets | *4* | **P17,141** | P20,946 |
| Deferred tax liabilities | | **(28,472)** | (27,749) |
| | | **(P11,331)** | (P6,803) |

As at December 31, 2021, the NOLCO of the Group, which are presented as part of "Deferred tax assets" account in the consolidated statements of financial position, that can be claimed as deduction from future taxable income are as follows:

| Year Incurred/Paid | Carryforward Benefits Up To | NOLCO |
|---|---|---|
| 2019 | December 31, 2022 | **P308** |
| 2020 | December 31, 2025 | **4** |
| 2021 | December 31, 2026 | **33,184** |
| | | **P33,496** |

As at December 31, 2021, the MCIT of the Group, which are presented as part of "Deferred tax assets" account in the consolidated statements of financial position, that can be claimed as deduction from corporate income tax due are as follows:

| Year Incurred/Paid | Carryforward Benefits Up To | MCIT |
|---|---|---|
| 2019 | December 31, 2022 | **P4** |
| 2020 | December 31, 2023 | **88** |
| 2021 | December 31, 2024 | **953** |
| | | **P1,045** |

As at December 31, 2021, deferred tax assets in respect of NOLCO and others amounting to P9,009 has not been recognized because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

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

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Statutory income tax rate | **25.00%** | 30.00% | 30.00% |
| Increase (decrease) in income tax rate resulting from: | | | |
| Impact of change in tax rate | **(5.47%)** | - | - |
| Interest income subject to final tax | **(1.36%)** | (4.96%) | (4.15%) |
| Equity in net earnings of associates and joint ventures | **(0.39%)** | (0.33%) | (0.04%) |
| Loss (gain) on sale of investments subject to final or capital gains tax | **(0.06%)** | 0.39% | 0.09% |
| Others, mainly income subject to different tax rates - net | **9.26%** | 16.42% | 11.09% |
| Effective income tax rate | **26.98%** | 41.52% | 36.99% |

*Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*

The CREATE Act, which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted and performance-based, was passed into law on March 26, 2021 and took effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or on April 11, 2021.

Key provisions of the CREATE Act which have an impact on the Group are: (i) reduction of Regular Corporate Income Tax (RCIT) rate from 30% to 25% for domestic and resident foreign corporations effective July 1, 2020; (ii) reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023; and (iii) repeal of the imposition of improperly accumulated earnings tax. Accordingly, current and deferred taxes as at and for the year ended December 31, 2021 were computed and measured using the applicable income tax rates as at December 31, 2021 (i.e., 25% RCIT, 1% MCIT) for financial reporting purposes.

The impact on the consolidated financial statements of the Group based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE Law are as follows:

| | Increase (Decrease) |
|---|---|
| **ASSETS** | |
| Prepaid expenses and other current assets | P407 |
| Investments and advances - net | 9 |
| Deferred tax assets | (2,075) |
| | (P1,659) |
| **LIABILITIES** | |
| Income and other taxes payable | (P881) |
| Deferred tax liabilities | (3,877) |
| | (4,758) |

*Forward*

| | Increase (Decrease) |
|---|---|
| **EQUITY** | |
| Equity reserves | (P329) |
| Retained earnings | 3,342 |
| Non-controlling interests | 86 |
| | 3,099 |
| **TOTAL LIABILITIES AND EQUITY** | (P1,659) |
| **INCOME BEFORE INCOME TAX** | |
| Equity in net earnings of associates and joint ventures | P9 |
| **INCOME TAX EXPENSE** | |
| Current | (1,288) |
| Deferred | (2,319) |
| | (3,607) |
| **NET INCOME** | P3,616 |
| | |
| Attributable to: | |
| Equity holders of the Parent Company | P3,342 |
| Non-controlling interests | 274 |
| | P3,616 |

## 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 the 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 33,828 and 34,013 common stockholders as at December 31, 2021 and 2020 respectively.

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Issued shares | **3,288,649,125** | 3,288,649,125 | 3,288,649,125 |
| Less treasury shares | **904,752,537** | 904,752,537 | 904,752,537 |
| Issued and outstanding shares | **2,383,896,588** | 2,383,896,588 | 2,383,896,588 |

Preferred Shares

i. Series "1" Preferred Shares

Series "1" preferred shares have a par value of P5.00 per share and are entitled to receive cash dividends upon declaration by and at the sole option of the BOD of the 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.

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

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

The Parent Company has 279,406,667 Series "1" preferred shares held in treasury as at December 31, 2021 and 2020.

The Parent Company has no outstanding Series "1" preferred shares as at December 31, 2021 and 2020.

ii. Series "2" Preferred Shares

*Subseries 2-A, Subseries 2-B and Subseries 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", Subseries "2-B" and Subseries "2-C" preferred shares, 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. The redemption was approved by the BOD of the Parent Company on August 20, 2015.

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. The redemption was approved by the BOD of the Parent Company on September 12, 2019.

On September 21, 2021, the Parent Company redeemed its outstanding 255,559,400 Series "2" preferred shares - Subseries "2-C" at a redemption price of P75.00 per share. The Parent Company paid P19,167 to the holders of Subseries "2-C" preferred shares. The redemption was approved by the BOD of the Parent Company on August 5, 2021.

*Subseries 2-D, Subseries 2-E and Subseries 2-F*
On September 21, 2015, the Parent Company issued and listed at 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", Subseries "2-E" and Subseries "2-F" preferred shares, respectively. The SEC approved the registration and issued a permit to sell on August 6, 2015.

On September 21, 2020, the Parent Company redeemed its 89,333,400 Series "2" preferred shares - Subseries "2-D" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P6,700 to the holders of Subseries "2-D" preferred shares. The redemption was approved by the BOD of the Parent Company on August 6, 2020.

On September 21, 2021, the Parent Company redeemed its 134,000,100 Series "2" preferred shares - Subseries "2-E" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P10,050 to the holders of Subseries "2-E" preferred shares. The redemption was approved by the BOD of the Parent Company on August 5, 2021.

*Subseries 2-G, Subseries 2-H and Subseries 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", Subseries "2-H" and Subseries "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", Subseries "2-H" and Subseries "2-I" preferred shares, 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.

On March 30, 2021, the Parent Company redeemed its 66,666,600 Series "2" preferred shares - Subseries "2-G" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Parent Company paid P5,000 to the holders of Subseries "2-G" preferred shares. The redemption was approved by the BOD of the Parent Company on March 11, 2021.

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

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

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

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

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

The Parent Company has 750,861,219 and 294,635,119 Series "2" preferred shares held in treasury as at December 31, 2021 and 2020, respectively.

The Parent Company has 1,007,238,467 and 1,463,464,567 outstanding Series "2" preferred shares as at December 31, 2021 and 2020, respectively.

The Parent Company has a total of 366 and 910 preferred stockholders as at December 31, 2021 and 2020, respectively.

*c. Treasury Shares*

Treasury shares consist of:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Common | **P67,093** | P67,093 | P67,093 |
| Preferred | **77,270** | 43,053 | 49,190 |
| | **P144,363** | P110,146 | P116,283 |

Common Shares

The Parent Company has 904,752,537 common shares held in treasury as at December 31, 2021, 2020 and 2019.

1. 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.

   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. To date, no such further action or proceeding has been filed by the ROP relating to the 25,450,000 Treasury Shares of the Parent Company.

2. In 2009, 873,173,353 common shares reverted to treasury were acquired through the exchange of common shares to preferred shares, on a one-for-one basis, at P75.00 per share amounting to P65,488.

3. On May 5, 2011, the Parent Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Parent Company consisting of 27,580,000 common shares from the treasury shares of the Parent Company and 82,740,000 SMC common shares held by Top Frontier, priced at P110.00 per share.

4. Also on May 5, 2011, US$600 worth of exchangeable bonds of the Parent Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price.

The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Parent Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Parent Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US$600 exchangeable bonds of the Parent Company.

In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Parent Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Parent Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 common shares were issued to the bondholders of the Parent Company's exchangeable bonds as at December 31, 2014.

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

   In 2016, the Parent Company discontinued the ESPP.

*d. Capital Securities*

Senior Perpetual Capital Securities

On December 5, 2019, the BOD approved the establishment of a medium term note programme amounting to US$3,000 (the "Programme"), and the issuance of US$500 perpetual securities out of the Programme. The Programme and the initial issuance of perpetual securities were both registered at the SGX-ST.

The Programme will be available for a medium term and will allow the Parent Company to tap the financial market for funding through the issuance of securities, including but not limited to corporate notes, bonds, and perpetual securities and other similar instruments at different currencies (other than Philippine peso). The establishment of the Programme will give the Parent Company ready access to funding and will give the Parent Company the flexibility to fund its contemplated investments and projects such as the MRT 7 construction, the Manila International Airport, as well as the refinancing of its existing obligations and for other general corporate purposes. All instruments and securities that will be issued out of the Programme shall be exempt securities and shall not be required to be registered with the PSE.

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

Redeemable Perpetual Securities

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

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

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

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

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

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

The amount of RPS presented in the consolidated financial statements is net of the US$100 RPS issued to a related party.

*e. Unappropriated Retained Earnings*

The unappropriated retained earnings of the Parent Company is restricted in the amount of P67,093 in 2021, 2020 and 2019, representing the cost of common shares held in treasury.

The unappropriated retained earnings of the Group includes the accumulated earnings in subsidiaries and equity in net earnings of associates and joint ventures not available for declaration as dividends until declared by the respective investees.

*f. Appropriated Retained Earnings*

The BOD of certain subsidiaries approved additional appropriations amounting to P29,112, P16,620 and P13,109 in 2021, 2020 and 2019, respectively, to finance future capital expenditure projects. Reversal of appropriations amounted to P22,637, P10,359 and P29,436 in 2021, 2020 and 2019, respectively.

*g. Non-controlling interests*

Non-controlling interests consist of:

| | **2021** | 2020 |
|---|---|---|
| Capital securities of subsidiaries | **P220,464** | P172,389 |
| Share in the net assets of subsidiaries | **104,534** | 95,346 |
| Preferred shares of subsidiaries | **29,611** | 32,489 |
| | **P354,609** | P300,224 |

The following are the developments relating to the capital securities and preferred shares of subsidiaries:

Energy

- SMC Global

  a) Issuance of SPCS

  SMC Global issued and listed at the 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 | 6.50% | 100.000% | US$500 | P25,610 |
| July 3, 2019 | 6.50% | 102.052% | 300 | 15,440 |
| November 5, 2019 | 5.95% | 100.000% | 500 | 24,837 |
| January 21, 2020 | 5.70% | 100.000% | 600 | 30,171 |
| October 21, 2020 | 7.00% | 100.000% | 400 | 19,141 |

*Forward*

| Date of Issuance | Initial Rate of Distribution Per Annum | Issue Price | Amount in US Dollar | Amount in Philippine Peso |
|---|---|---|---|---|
| December 15, 2020 | 7.00% | 102.457% | US$350 | P17,000 |
| June 9, 2021 | 5.45% | 100.000% | 600 | 28,200 |
| September 15, 2021 | 5.45% | 100.125% | 150 | 7,368 |
| | | | **US$3,400** | **P167,767** |

The holders of the SPCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. SMC Global has a right to defer this distribution under certain conditions.

The SPCS constitute direct, unconditional, unsecured and unsubordinated obligations of SMC Global with no fixed redemption date. The SPCS are redeemable in whole, but not in part, at the option of SMC Global, on step-up date or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the SPCS plus any accrued, unpaid or deferred distribution.

The net proceeds from the issuance of SPCS in 2019 were used for the redemption of the US$300 USCS in November 2019, repayment of indebtedness, capital expenditures and investments in power-related assets, the development of the BESS projects and general corporate purposes.

The net proceeds in 2020 were used for the funding requirements of the development and completion of the BESS projects, capital expenditures and investments in liquefied natural gas facilities and related assets, refinancing or redemption of existing or expiring commitments whether debt or perpetual securities and general corporate purposes.

The net proceeds in 2021 will be used primarily for investments in the 1,313.1 MW Batangas Combined Cycle Power Plant and related assets or for general corporate purposes.

b) Redemption of USCS

On February 26, 2021, SMC Global completed the redemption of its US$300 USCS issued on August 26, 2015 pursuant to the terms and conditions of the securities. The redemption price includes the principal amount and any accrued but unpaid distributions up to (but excluding) the step-up date.

The difference between the settlement amount and the carrying amount of the USCS amounting to P758 was recognized as part of the "Equity reserves" account in the consolidated statement of financial position as at December 31, 2021.

The US$300 USCS were redeemed using in part the proceeds of the US$350 SPCS issued on December 15, 2020.

Fuel and Oil

- Petron

a) Issuance of SPCS

On April 19, 2021, Petron issued US$550 SPCS at an issue price of 100%, with an initial distribution rate of 5.95% per annum. The securities were listed at the SGX-ST on April 20, 2021. The net proceeds were used for the repayment of its indebtedness and for general corporate purposes.

b) Redemption of Series 2B Preferred Shares

On November 3, 2021, Petron redeemed its 2,877,680 Series 2B Preferred Shares issued on November 3, 2014 at a redemption price of P1,000.00 per share. The redemption was approved by the BOD of Petron on March 9, 2021.

Food and Beverage

- SMFB

  On March 12, 2020, SMFB redeemed its 15,000,000 outstanding perpetual Series "2" Preferred Shares issued on March 12, 2015 at a redemption price of P1,000.00 per share or P15,000, plus any accumulated unpaid cash dividends. The redemption was approved by the BOD of SMFB on February 3, 2020.

Cement

- SMEII

  On July 2, 2020, SMEII issued P1,500 RPS at an issue price of 100%, with an initial rate of distribution of 6%. The net proceeds were used for capital expenditures of the Cement business.

  The RPS are capital securities with no fixed redemption date. The security holders have the right to receive distribution payable quarterly in arrears every July 2, October 2, January 2 and April 2 of each year. SMEII has the right to defer this distribution under certain conditions.

The details of material share in the net assets of subsidiaries are as follows:

| | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | **Petron** | **SMFB** | Petron | SMFB |
| **Percentage of non-controlling interests** | **31.74%** | **11.24%** | 31.74% | 11.24% |
| **Carrying amount of non-controlling interests** | **P14,247** | **P60,725** | P13,066 | P55,315 |
| **Net income (loss) attributable to non-controlling interests** | **P1,037** | **P13,848** | (P4,666) | P11,036 |
| **Other comprehensive income (loss) attributable to non-controlling interests** | **P185** | **P899** | (P685) | (P580) |
| **Dividends paid to non-controlling interests** | **P42** | **P9,498** | P397 | P9,074 |

The following are the audited condensed financial information of subsidiaries with material non-controlling interests:

| | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | **Petron** | **SMFB** | Petron | SMFB |
| Current assets | **P188,035** | **P118,330** | P132,294 | P103,040 |
| Noncurrent assets | **219,385** | **179,294** | 217,431 | 173,242 |
| Current liabilities | **(190,052)** | **(79,262)** | (149,069) | (84,309) |
| Noncurrent liabilities | **(106,455)** | **(72,900)** | (114,461) | (60,154) |
| **Net Assets** | **P110,913** | **P145,462** | P86,195 | P131,819 |
| Sales | **P438,057** | **P309,778** | P286,033 | P279,290 |
| Net income (loss) | **P6,136** | **P31,417** | (P11,413) | P22,401 |
| Other comprehensive income (loss) | **207** | **1,630** | (1,689) | (998) |
| **Total Comprehensive Income (Loss)** | **P6,343** | **P33,047** | (P13,102) | P21,403 |
| Cash flows provided by (used in) operating activities | **(P10,668)** | **P40,769** | P2,533 | P42,553 |
| Cash flows used in investing activities | **(9,759)** | **(17,135)** | (8,437) | (25,198) |
| Cash flows provided by (used in) financing activities | **28,098** | **(19,518)** | 318 | (16,184) |
| Effect of exchange rate changes on cash and cash equivalents | **1,682** | **452** | (1,579) | (609) |
| **Net increase (decrease) in cash and cash equivalents** | **P9,353** | **P4,568** | (P7,165) | P562 |

## 25. Sales

Sales consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Goods | | **P918,118** | P708,144 | P992,252 |
| Services | | **23,075** | 17,653 | 28,250 |
| | *6, 33* | **P941,193** | P725,797 | P1,020,502 |

## 26. Cost of Sales

Cost of sales consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Inventories | *9* | **P514,638** | P367,125 | P565,273 |
| Taxes and licenses | | **90,305** | 82,647 | 95,775 |
| Depreciation and amortization | *28* | **33,548** | 30,857 | 32,807 |
| Power purchases | *34* | **25,304** | 12,918 | 21,435 |
| Energy fees | *34* | **17,762** | 20,365 | 26,417 |
| Contracted services | | **15,144** | 15,119 | 16,032 |
| Fuel and oil | | **12,671** | 8,367 | 15,508 |
| Personnel | *29* | **10,049** | 9,453 | 10,093 |
| Freight, trucking and handling | | **7,096** | 9,260 | 12,003 |
| Tolling fees | *34* | **6,816** | 7,493 | 8,959 |
| Communications, light and water | | **6,257** | 5,182 | 6,773 |
| Repairs and maintenance | | **5,017** | 5,101 | 4,643 |
| Rent | | **596** | 419 | 566 |
| Others | *9, 34* | **847** | 2,143 | 2,531 |
| | | **P746,050** | P576,449 | P818,815 |

## 27. Selling and Administrative Expenses

Selling and administrative expenses consist of:

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Selling | **P34,285** | P34,047 | P42,025 |
| Administrative | **43,706** | 43,825 | 43,947 |
| | **P77,991** | P77,872 | P85,972 |

Selling expenses consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Freight, trucking and handling | | **P9,387** | P8,931 | P11,164 |
| Personnel | *29* | **8,218** | 8,727 | 10,022 |
| Advertising and promotions | | **5,586** | 5,375 | 9,682 |
| Depreciation and amortization | *28* | **3,769** | 4,098 | 4,050 |
| Rent | | **1,633** | 1,878 | 1,819 |
| Repairs and maintenance | | **1,534** | 1,278 | 1,505 |
| Taxes and licenses | | **836** | 838 | 841 |
| Supplies | | **740** | 557 | 575 |
| Professional fees | | **540** | 518 | 659 |
| Communications, light and water | | **485** | 420 | 464 |
| Others | | **1,557** | 1,427 | 1,244 |
| | | **P34,285** | P34,047 | P42,025 |

Administrative expenses consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Personnel | *29* | **P23,660** | P21,094 | P21,788 |
| Depreciation and amortization | *28* | **6,731** | 6,389 | 6,204 |
| Taxes and licenses | | **3,488** | 3,569 | 3,567 |
| Professional fees | | **2,451** | 2,331 | 2,278 |
| Repairs and maintenance | | **1,576** | 1,686 | 2,079 |
| Communications, light and water | | **957** | 802 | 1,066 |
| Supplies | | **934** | 903 | 772 |
| Rent | | **831** | 1,154 | 1,077 |
| Impairment loss | *8, 9, 18* | **283** | 1,785 | 1,044 |
| Research and development | | **38** | 50 | 152 |
| Others | *34* | **2,757** | 4,062 | 3,920 |
| | | **P43,706** | P43,825 | P43,947 |

"Others" consist of entertainment and amusement, gas and oil, and other administrative expenses.

## 28. Depreciation and Amortization

Depreciation and amortization are distributed as follows:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Cost of sales: | | | | |
| Property, plant and equipment | *13* | **P18,800** | P16,512 | P19,042 |
| Other intangible assets | *17* | **5,963** | 4,778 | 4,610 |
| Right-of-use assets | *14* | **5,571** | 5,596 | 5,434 |
| Biological assets and others | *15, 16, 18* | **3,214** | 3,971 | 3,721 |
| | *26* | **33,548** | 30,857 | 32,807 |

*Forward*

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Selling and administrative expenses: | | | | |
| Property, plant and equipment | *13* | **P5,106** | P5,188 | P4,619 |
| Right-of-use assets | *14* | **953** | 1,098 | 1,255 |
| Investment property, deferred containers and others | *15, 17, 18* | **4,441** | 4,201 | 4,380 |
| | *27* | **10,500** | 10,487 | 10,254 |
| | | **P44,048** | P41,344 | P43,061 |

"Others" include amortization of investment property and catalyst in cost of sales and idle assets and computer software and licenses in selling and administrative expenses.

## 29. Personnel Expenses

Personnel expenses consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Salaries and wages | | **P23,026** | P22,334 | P22,222 |
| Retirement costs - net | *35* | **3,443** | 1,830 | 1,202 |
| Other employee benefits | | **15,458** | 15,110 | 18,479 |
| | | **P41,927** | P39,274 | P41,903 |

Personnel expenses are distributed as follows:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Cost of sales | *26* | **P10,049** | P9,453 | P10,093 |
| Selling expenses | *27* | **8,218** | 8,727 | 10,022 |
| Administrative expenses | *27* | **23,660** | 21,094 | 21,788 |
| | | **P41,927** | P39,274 | P41,903 |

## 30. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Interest expense | | **P42,891** | P46,730 | P50,901 |
| Other financing charges | *21, 35* | **6,374** | 5,305 | 5,118 |
| | | **P49,265** | P52,035 | P56,019 |

Amortization of debt issue costs included in "Other financing charges" amounted to P2,630, P2,282 and P1,968 in 2021, 2020 and 2019, respectively (Note 21).

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

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Loans payable | *19* | **P3,737** | P7,144 | P10,473 |
| Long-term debt | *21* | **33,097** | 32,121 | 31,694 |
| Lease liabilities | *14, 34* | **6,057** | 7,465 | 8,734 |
| | | **P42,891** | P46,730 | P50,901 |

## 31. Interest Income

Interest income consists of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Interest from short-term investments, cash in banks and others | *7, 12, 35* | **P3,291** | P5,861 | P10,287 |
| Interest on amounts owed by related parties | *33* | **300** | 321 | 388 |
| | | **P3,591** | P6,182 | P10,675 |

## 32. Other Income (Charges)

Other income (charges) consists of:

| | Note | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Construction revenue (a) | *4, 17, 34* | **P29,769** | P22,747 | P25,386 |
| PSALM monthly fees reduction | | **4,747** | 2,581 | 1,171 |
| Dividend income | *12* | **2,674** | 1,344 | 1,886 |
| Miscellaneous gain (b) | *5, 43* | **170** | 7,971 | 1,430 |
| Reversal of (additional provision on) impairment (c) | *8, 13, 17, 18* | **(449)** | 192 | (1,573) |
| Gain (loss) on foreign exchange - net | *39* | **(4,846)** | 5,444 | 5,422 |
| Loss on derivatives - net | *40* | **(9,427)** | (5,007) | (3,308) |
| Construction costs (a) | *4, 17, 34* | **(29,769)** | (22,747) | (25,386) |
| Gain on fair valuation of investment | *5, 11* | **-** | 894 | 727 |
| Others - net (d) | *34* | **398** | (1,558) | 1,093 |
| | | **(P6,733)** | P11,861 | P6,848 |

a. The construction revenue recognized in profit or loss approximates the construction costs recognized. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

   Construction costs are recognized by reference to the stage of completion of the construction activity of toll road, airport, port, water and power concession rights as at reporting date.

b. Miscellaneous gain consists of settlement received by the Group from third party contractors on account of damages arising from the latter's non-fulfillment of obligations under procurement-related contracts in 2020 (P3,826), income recognized by the Group from the Tax Credit Certificates (TCC) issued by the BIR in relation to the claims for refund filed for overpayment of excise taxes with the BIR for San Mig Light (Note 43) amounting to P170, P3,382 and P1,430 in 2021, 2020 and 2019, respectively, and the gain recognized from the consolidation of NCC in 2020 amounting to P763 (Note 5).

c. *SMBB*. In 2019, the Group incurred losses in its North China operations due to fierce market competitions resulting in the decline in product demand compared to forecasted sales. These factors, among others, are indications that noncurrent assets of the Group's North China operations, comprising mainly of the production plant located in Baoding, Hebei Province and other intangible assets, may be impaired.

   As discussed in Note 5, in March 2020, SMBIL and SMCIC, shareholders of SMBB, passed a resolution approving the dissolution of SMBB. SMBB has stopped operations and production activities from the date of the resolution and started liquidation.

   Accordingly, the Group assessed the recoverable amounts of SMBB's assets and determined that the carrying amounts of the assets are higher than their recoverable amounts. Impairment losses were recognized to reduce carrying amounts to recoverable amounts of property, plant and equipment and deferred expenses amounting to P903 in 2019. There were no impairment losses or reversals of previously recognized impairment losses in 2021 and 2020.

As SMBB's assets have been reduced to their recoverable amounts, any adverse change in the assumptions used in the calculation of recoverable amounts would result in further impairment losses.

*La Pacita Biscuit Operations*. In September 2021, SMFB ceased the operation of La Pacita biscuit acquired in February 2015. Accordingly, SMFB assessed the recoverable value of the trademarks, formulations, recipes and other intangible properties relating to La Pacita biscuit and flour-based snack business. It was determined that the carrying amount of the asset was higher than the recoverable amount. Impairment loss amounting to P386 was recognized to reduce the carrying amount of trademark to recoverable amount (Note 17).

d. "Others" consist of rent income, commission income, changes in fair value of financial assets at FVPL, gain on settlement of ARO, insurance claims, casualty loss, loss on retirement of breeding stocks and expenses of closed facilities. This also includes SMYPC's inventory loss from the fire incident at its plastic plant located in Pandacan, Manila in February 2020 (P312) and the portion of the Skyway Stage 3 Project of MMSS3 that was also damaged by the fire (P280), net of proceeds from insurance.

## 33. Related Party Disclosures

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

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

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

| | *Note* | Year | Revenue from Related Parties | Purchases from Related Parties | Amounts Owed by Related Parties | Amounts Owed to Related Parties | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|
| Ultimate Parent Company | *8, 36* | **2021** | **P8** | **P -** | **P3,652** | **P551** | On demand; non-interest bearing | Unsecured; no impairment |
| | | 2020 | 7 | - | 3,439 | 551 | | |
| | *18* | **2021** | **-** | **-** | **3,037** | **-** | To be settled on the first anniversary of commercial operations of the Nonoc Project; interest bearing | Unsecured; no impairment |
| | | 2020 | - | - | 3,037 | - | | |
| Retirement Plans | *8, 35* | **2021** | **-** | **-** | **4,433** | **-** | On demand; non-interest bearing | Unsecured; no impairment |
| | | 2020 | - | - | 4,249 | - | | |
| | *8, 31, 35* | **2021** | **289** | **-** | **4,371** | **-** | On demand; interest bearing | Unsecured; no impairment |
| | | 2020 | 304 | - | 4,795 | - | | |
| Associates | *8, 18, 20, 31* | **2021** | **2,045** | **46** | **1,245** | **30** | On demand; interest and non-interest bearing | Unsecured; no impairment |
| | | 2020 | 2,074 | 18 | 498 | 29 | | |
| | *19, 21* | **2021** | **9** | **-** | **140** | **18,817** | Less than 1 to 10 years; interest bearing | Unsecured and secured; no impairment |
| | | 2020 | 12 | - | 182 | 17,853 | | |
| Joint Ventures | *8,18, 20* | **2021** | **321** | **1,681** | **81** | **177** | On demand; non-interest bearing | Unsecured; no impairment |
| | | 2020 | 267 | 1,484 | 72 | 521 | | |
| | | **2021** | **-** | **-** | **621** | **-** | On demand; interest bearing | Unsecured; with impairment |
| | | 2020 | - | - | 621 | - | | |
| | *31* | **2021** | **24** | **-** | **1,170** | **-** | Less than 1 to 10.5 years; interest bearing | Unsecured; no impairment |
| | | 2020 | 5 | - | 130 | - | | |
| Shareholders in Subsidiaries | *8, 20* | **2021** | **79** | **1,757** | **123** | **2,454** | On demand; non-interest bearing | Unsecured; no impairment |
| | | 2020 | 60 | 470 | 117 | 2,249 | | |
| Others | *8, 10, 20, 22* | **2021** | **3,178** | **2,649** | **837** | **61** | On demand; non-interest bearing | Unsecured; no impairment |
| | | 2020 | 1,748 | 2,574 | 542 | 16 | | |
| | | 2020 | - | - | - | 7,277 | More than 1 year; interest bearing | Unsecured |
| **Total** | | **2021** | **P5,953** | **P6,133** | **P19,710** | **P22,090** | | |
| Total | | 2020 | P4,477 | P4,546 | P17,682 | P28,496 | | |

1. Amounts owed by related parties consist of current and noncurrent receivable, advances to suppliers and deposits and share in expenses.

   a) 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 rate per annum of any portion thereof unpaid, and the final payment amounting to P1,213, plus 6.00% interest rate per annum of any portion thereof unpaid, shall be payable and the interest shall be accrued, on the first anniversary of commercial operations of the Nonoc Project or such extended date as may be mutually agreed by the parties in writing. As a result, no accrual of interest was made as at December 31, 2021 and 2020. The Nonoc Project is primarily focused in extracting nickel deposits in Nonoc Island, Surigao City, Surigao del Norte undertaken by Pacific Nickel Philippines, Inc., an indirect subsidiary of Clariden. These amounts are included as part of noncurrent receivables and deposits under "Other noncurrent assets - net" account in the consolidated statement of financial position as at December 31, 2021 and 2020 (Note 18).

(ii) *Amounts owed by the Ultimate Parent Company amounting to P725:* These amounts are subject to 5.75% interest rate per annum and will accrue upon commencement of commercial operations of the Nonoc Project. As a result, no accrual of interest was made as at December 31, 2021 and 2020. 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, 2021 and 2020 (Note 18).

b) The amounts owed by related parties include non-interest bearing receivable from joint ventures included as part of "Trade and other receivables - net" account in the consolidated statements of financial position. Allowance for impairment losses pertaining to these receivables amounted to P621 and P540 as at December 31, 2021 and 2020, respectively.

2. Amounts owed to related parties consist of trade payables, professional fees and leases. As at December 31, 2021 and 2020, 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 P2 and P1 and P6 and P5, respectively. The amount owed to the Ultimate Parent Company pertains to dividends payable (Note 36).

3. The amounts owed to associates include interest bearing loans payable to BOC presented as part of "Loans payable" account amounting to P6,994 and P8,200 and "Long-term debt" account amounting to P11,823 and P9,653 in the consolidated statements of financial position as at December 31, 2021 and 2020, respectively (Notes 19 and 21).

   The amounts owed to associates include syndicated project finance loans amounting to P10,444 and P7,772 as at December 31, 2021 and 2020, respectively, which were secured by certain property, plant and equipment and other intangible assets (Notes 13 and 17).

4. Amounts owed to related parties under "Others" amounting to P7,277 were due in more than one year and subject to interest rate of 3% per annum as at December 31, 2020. The amount was fully paid in December 2021.

5. The compensation of key management personnel of the Group, by benefit type, follows:

| | ***Note*** | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Short-term employee benefits | | **P436** | P477 | P689 |
| Retirement cost | *35* | **45** | 31 | 20 |
| | | **P481** | P508 | P709 |

There were no known transactions with parties that fall outside the definition "related parties" under PAS 24, *Related Party Disclosures*, but with whom SMC or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

## 34. Significant Agreements and Lease Commitments

Significant Agreements

- Energy

  - *IPPA Agreements*

    As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following appointed subsidiaries:

| Subsidiary | Power Plant | Location |
|---|---|---|
| SMEC | Sual Coal - Fired Power Station (Sual Power Plant) | Sual, Pangasinan Province |
| SPDC | San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant) | San Roque, Pangasinan Province |
| SPPC | Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant) | Ilijan, Batangas Province |

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of RA No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so 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 P17,762, P20,365 and P26,417 in 2021, 2020 and 2019, respectively (Note 26). SMEC and SPDC renewed their performance bonds amounting to US$58 and US$20, which will expire on November 3, 2022 and January 25, 2023, respectively.

On June 16, 2015, SPPC renewed its performance bond amounting to US$60 with a validity period of one year. This performance bond was subsequently drawn by PSALM on September 4, 2015 which is subject to an ongoing case (Note 43).

The lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates 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 Agreements and recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income. Interest expense amounted to P4,706, P6,045 and P7,290 in 2021, 2020 and 2019, respectively (Note 30).

SMEC, SPDC and SPPC's power plants under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position, amounted to P151,828 and P157,014 as at December 31, 2021 and 2020, respectively.

- *Land Lease Agreement with PSALM*

MPPCL has an existing lease agreement with PSALM for the lease of the 199,600 square meters land located in Barangay Bani, Masinloc, Zambales. The lease agreement will expire on April 11, 2028.

In August 2019, Alpha Water and Realty Services Corp. acquired 12,522 square meters out of the existing land currently being leased by MPPCL from PSALM for a total consideration of P16 (Note 13).

The lease liability is amortized using the discount rate over the period of the agreement. Amortization is recognized as part of "Interest expense and other financing charges" account in the consolidated statements of income which amounted to P3 in 2021, 2020 and 2019 (Note 30).

MPPCL's land under lease arrangement, presented under "Right-of-use assets - net" account in the consolidated statements of financial position amounted to P89 and P103 as at December 31, 2021 and 2020, respectively (Notes 4 and 14).

- *Market Participation Agreements (MPA)*

SMEC, SPDC, SPPC, SCPC, SMELC, SMCPC, MPPCL, SPESC and UPSI each entered into separate MPAs with the 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, SMCPC 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 P126, P185 and P206 in 2021, 2020 and 2019, respectively (Note 26).

SMELC, SCPC and MPPCL each has a standby letter of credit, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM which expired in 2021. Subsequently, SCPC and MPPCL have extended the validity until 2022 and 2023, respectively.

- *PSAs and RSCs*

  SMEC, SPPC, SPDC, SMCPC, SCPC, SMELC, Strategic Energy Development Inc. and MPPCL have offtake contracts such as PSAs and RSCs with various counterparties to sell electricity produced by the power plants. Counterparties for PSAs include DUs, electric cooperatives, third party Retail Electricity Supplier (RES) and other entities.

  Counterparties for RSCs are Contestable Customers, or large industrial users which have been certified contestable by the ERC.

  Majority of the consolidated sales of the Group are through long-term offtake contracts, which may have provisions for take-or-pay, passing on fuel costs, foreign exchange differentials or certain other fixed costs and minimum offtake level. Most of the agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties and applicable rules and regulations. Tariff structures vary depending on the customer and their needs, with some having structures based on energy-based pricing 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, SMCPC, SCPC and MPPCL can also purchase power from WESM or other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements. Power purchases amounted to P25,304, P12,918 and P21,435 in 2021, 2020 and 2019, respectively (Note 26).

  On March 2, 2021, Excellent Energy Resources Inc. (EERI) and MPPCL have executed long-term PSAs with Meralco for the supply and delivery of 1,200 MW and 600 MW contract capacity starting in November 2024 and April 2025, respectively. These PSAs have been filed and are pending approval by the ERC to date.

  Recently, in February 2022, SPPC also executed a PSA with Meralco for the supply of 170 MW (net) contract capacity, for a term of five months after it was declared as the winning bidder in the competitive selection process conducted by Meralco for the same.

- *Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)*

  On December 6, 2012, SPDC entered into a five-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA: i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties. The MOA was extended for another two years and expired on March 25, 2020.

- *Ancillary Service Procurement Agreement (ASPA)*

  On September 8, 2017, MPPCL entered into an ASPA with the National Grid Corporation of the Philippines (NGCP) for a period of five years to allocate the entire capacity of its 10 MW Masinloc BESS as frequency regulating reserve for the NGCP to maintain power quality, reliability and security of the grid.

  On May 6, 2021, SPESC entered into an ASPA with NGCP for a period of five years commencing on January 26, 2022, allocating its 20 MW Kabankalan 1 BESS to provide ancillary services to the Visayas grid based on the Provisional Authority granted by the ERC.

- *Coal Supply Agreements*

  SMEC, SMCPC, SCPC and MPPCL have supply agreements with various coal suppliers for the coal requirements of the power plants.

- *Distribution Wheeling Service (DWS) Agreements*

  As RES, SMELC, SCPC and MPPCL each entered into DWS Agreements with certain DUs for the conveyance of electricity through its distribution systems in order to supply the power requirements of their respective contestable customers. The agreements are valid and binding upon execution unless terminated by either party.

  The DWS charges from the DUs are passed on to the contestable customers who have opted for a single billing arrangement as provided in the ERC Supplemental Switching Rules.

  SMELC's DWS Agreements were no longer renewed relative to the expiration of its RES license in September 2021.

- *Concession Agreement*

  SMC Global entered into a 25-year Concession Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

  On January 28, 2014, SMC Global and APEC, entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of SMC Global under the Concession Agreement effective January 2, 2014.

  The Concession Agreement include, among others, the following rights and obligations:

  i) as Concession Fee, APEC shall pay to ALECO: (a) separation pay of ALECO employees in accordance with the Concession Agreement and (b) the amount of P2 every quarter for the upkeep of residual ALECO (fixed concession fee);

  ii) if the net cash flow of APEC is positive within five years or earlier from the date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,049;

  iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and

  iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO.

  In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. APEC formally assumed operations as concessionaire on February 26, 2014.

- *COC*

  Daguma Agro-Minerals, Inc. (DAMI)'s coal property covered by COC No. 126, issued by the DOE, is located in South Cotabato consisting of two coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicated coal resources) of about 68 million metric tons as at December 31, 2021.

  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, 2021, 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, 2021.

*Status of Operations*
The DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI effective on the following dates:

| Subsidiary | COC No. | Effective Date | Term* |
|---|---|---|---|
| DAMI | 126 | November 19, 2008 | 20 years |
| SEPC | 134 | February 23, 2009 | 10 years |
| BERI | 138 | May 26, 2009 | 10 years |

**The term is followed by another ten-year extension, and thereafter, renewable for a series of three-year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On April 27, 2012 and January 26, 2015, the DOE granted the requests of DAMI, SEPC and BERI, for a moratorium on suspension of the implementation of the production timetable as specified under their respective COC. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium was retrospectively effective from the dates of their respective COC, when these were converted to Development and Production Phase, until December 31, 2017 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

On October 20, 2017, DAMI, SEPC and BERI again requested for extension of the moratorium. This was granted on March 27, 2018, with effectivity of January 1, 2018 to December 31, 2018, along with an approved Work Program and Budget (WPB) to be complied with by DAMI, SEPC and BERI during the extended moratorium period.

On September 18, 2018, SEPC applied with the DOE for a ten-year extension of its COC No. 134 which is due to expire on February 23, 2019. This application was accompanied by a new five-year WPB as required for the extension of the moratorium period to expire in 2018.

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 and subsequently submitted a five-year WPB, consistent with the COC No. 138 status as a Development and Production Contract, as required by the DOE.

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, the first two years of the five-year WPB submitted by DAMI, SEPC and BERI, focuses on the "removal of tension cracked materials to prevent landslide" within their respective COC areas as identified by Mines and Geosciences Bureau/DENR XII, and requested by the Municipality of Lake Sebu. Full-scale coal production will start during the third year when the Provincial Government of South Cotabato would have endorsed the Project on any or all of the following grounds:

a. the mining of coal in Barangay Ned is found to be beneficial to the host community as it reduces landslide risks and protects lives;

b. the mining method is "contour stripping and progressive rehabilitation" and not the banned "open-pit mining";

c. DAMI, SEPC and BERI have vested rights to mining within their respective COC prior to the issuance of the open-pit mining ban; and

d. the ban could be lifted as a result of court cases filed against it.

On March 2, 2019, DAMI, SEPC and BERI requested DOE for the consolidation of the three COCs for the following justifications:

a. the coal seams, although of varying thickness are continuous from one COC to another and deal for interconnected contour strip mining due to nearly horizontal deposition;

b. sulfur content vary over a wide range from less than one percent in the lower section of the thick seam in DAMI to over four percent in the Maitum blocks of BERI, and would require blending of the coal products from one COC to another in order to meet the acceptable market specification; and

c. the coal resources and reserves vary greatly from one COC to another as the thickness and depth of the coal seams are variable, thus requiring stringent mine planning, operational efficiency and economic feasibility considerations.

However, on May 15, 2019, DAMI, SEPC and BERI clarified to the DOE that their request for consolidation of the three COCs was not meant to abandon nor withdraw the extension request of SEPC applied on September 21, 2018, having in mind the vested right provision of Section 21 of RA No. 11038 or the "Expanded National Integrated Protected Areas System Act of 2018". Thus, DAMI, SEPC and BERI altogether declared that it is seeking for:

a. the extension of COC of SEPC; and

b. the consolidation of COC No. 126 and COC No.138 of DAMI and BERI, respectively, based on the justification set forth in the March 2, 2019 letter.

On December 11, 2019, the DOE approved the ten-year extension and the initial five-year WPB for COC No. 134 of SEPC.

On January 10, 2020, DAMI and BERI met with the Energy Resources Development Bureau representatives to discuss the proposed consolidated five-year WPB and the documentary requirements to effect consolidation of the two COCs.

On April 13, 2020, SEPC, DAMI and BERI reported to DOE inevitable delays in the implementation of their business plans, as embodied in their approved WPB of their respective COC due to the COVID-19 pandemic. This was followed on June 24, 2020 by a request for six months extension of the Work and Financial Commitments of SEPC, DAMI and BERI due to the continuing effects of the COVID-19 pandemic.

On August 28, 2020, DAMI and BERI submitted to DOE for approval a Deed of Assignment and Transfer conveying the agreement whereby BERI assigns and transfers its rights and obligations over COC No. 138 to DAMI. This is a requirement of the DOE for the consolidation of the COCs of BERI and DAMI.

On October 5, 2020, SEPC further requested that instead of only six months, its production years be extended by two years to enable recovery of its investment and maximize the recovery of its existing reserves.

On December 6, 2021, the Sangguniang Panlalawigan of South Cotabato endorsed the implementation of the respective COCs of DAMI, BERI and SEPC, thereby removing the biggest impediment for implementation of the three COCs and the implementation of the five-year WPB of SEPC that was approved by the DOE on December 11, 2019. With this endorsement, the DOE was prompted to undertake completed staff work for the COCs of DAMI and BERI. Approval of this request and the corresponding five-year consolidated WPB of DAMI and BERI is therefore expected by the first quarter of 2022. Moreover, the endorsement pushed the immediate implementation of SEPC's five-year WPB in 2022, which coincides with the previous request for a two-year extension of SEPC's WPB implementation. As at March 10, 2022, SEPC is coordinating with the officials of the barangays and municipalities of Lake Sebu to discuss the upcoming activities, such as trainings/seminars for officials and residents of the community, as part of the implementation of the said five-year WPB.

Based on management's assessment, there are no indicators that the carrying amount of the mining rights exceeds its recoverable amount as at December 31, 2021.

- 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 KPC was mutually agreed to be terminated by the parties effective January 1, 2021.

    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 70% of crude and condensate volume processed are from EMEPMI with balance of around 30% 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, 2021 and 2020 (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 P191, starting 2017, 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 2018 until the next re-appraisal is conducted. The leased premises shall be reappraised in 2022 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, 2021 and 2020, Petron leases other parcels of land from PNOC for its bulk plants and service stations (Note 43).

- Infrastructure

  - *Airport Concession Agreement*

    i. *Boracay Airport*

    The ROP awarded TADHC the Airport Project through a Notice of Award (NOA) issued on May 15, 2009. The Airport Project is proposed to be implemented through a Contract-Add-Operate and Transfer Arrangement, a variant of the Build-Operate-Transfer (BOT) contractual arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations.

    On June 22, 2009, TADHC entered into a Concession Agreement with the ROP, through the Department of Transportation (DOTr) and Civil Aviation Authority of the Philippines. Based on the Concession Agreement, TADHC has been granted with the concession of the Airport Project which includes the development and upgrade of the Caticlan Airport (marketed and promoted as Boracay Airport) as an international airport. Subject to existing law, the Concession Agreement also grants to TADHC the franchise to operate and maintain the Boracay Airport up to the end of the concession period, which is for a period of 25 years (as may be renewed or extended for another 25 years upon written agreement of the parties), and to collect the fees, rentals and other charges as may be determined in accordance with the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The operations and management of the Boracay Airport shall be transferred to TADHC, provided that the ROP shall retain the operations and control of air traffic services, national security matters, immigration, customs and other governmental functions and the regulatory powers insofar as aviation security, standards and regulations are concerned at the Boracay Airport.

2. As concessionaire, TADHC shall have full responsibility in all aspect of the operation and maintenance of the Boracay Airport and shall collect the regulated and other fees generated from it and from the end users. To guarantee faithful performance of its obligation in respect to the operation and maintenance of the Boracay Airport, TADHC shall post in favor of the ROP, an Operations and Maintenance Performance Security (OMPS) amounting to P25, which must be valid for the entire concession period of 25 years. As at December 31, 2021, 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 premiums in both 2021 and 2020 for the Work Performance Security and is included as part of "Airport concession rights" under "Other intangible assets" account in the consolidated statements of financial position (Note 17). The unamortized portion is included as part of "Prepaid expenses and other current assets" account in the consolidated statements of financial position (Note 10).

6. In consideration for allowing TADHC to operate and manage the Boracay Airport, TADHC shall pay the ROP P8 annually. The first payment shall be made immediately upon the turnover by the ROP of the operations and management of the Boracay Airport to TADHC, and every year thereafter until the end of the concession period. The operations and management of the Boracay Airport was turned over to TADHC on October 16, 2010.

After fulfillment of all contractual and legal requirements, the Concession Agreement became effective on December 7, 2009. The NCI issued to TADHC by the DOTr was accepted by TADHC on December 18, 2009.

In accordance with the license granted by the ROP, as expressly indicated in the Concession Agreement, TADHC presently operates the Boracay Airport. TADHC completed the rehabilitation of the existing airport terminal building and facilities on June 25, 2011. Construction work for the extension of runway has been completed in 2016. The construction of the new terminal building is ongoing and expected to be completed in 2023.

ii. *Manila International Airport*

On August 14, 2019, the ROP, through the DOTr, issued a NOA to SMHC, awarding the Manila International Airport Project. In accordance with the NOA, SMAI was registered by SMHC as the concessionaire.

The Manila International Airport Project shall create a gateway for international and domestic travel, with the necessary ancillary facilities to support the creation of a new airport city outside Metro Manila to decongest the existing road networks and provide an alternative higher capacity airport facility.

*A. Concession Agreement*

On September 18, 2019, SMAI entered into a Concession Agreement with the ROP, through the DOTr, for the right to finance, design, construct, supply, complete, test, commission and eventually operate and maintain the Manila International Project for a period of 50 years from the issuance of the Certificate of Substantial Completion for the first phase.

The salient features of the Concession Agreement are presented below:

1. The Manila International Airport shall consist of airfield facilities, passenger and cargo terminal buildings, airport support facilities and an airport toll road facility which will connect the Manila International Airport to the North Luzon Expressway and will be implemented in three phases, with increasing capacity for each phase completed.

2. The implementation of the first phase shall be completed within a period of five years from the date of commencement of construction, with the remaining phases subject to the timely submission and approval of the required documentation for each phase.

3. SMAI shall turnover 100 hectares of land to the ROP as government center land area and execute the necessary documents to transfer full ownership in favor of the ROP.

4. SMAI shall be responsible for the acquisition of right-of-way and possession of sufficient title to the facilities of the site of the Manila International Airport and the removal or abatement of all liens, encumbrances and hazardous substances within the Manila International Airport's vicinities as the case may be.

5. SMAI shall provide proper maintenance of the Manila International Airport's facilities and ensure that all airport facilities and airport toll road are in the condition required upon turnover to the ROP at the end of the concession period.

6. All revenues derived from the operations, maintenance and management of the Manila International Airport shall accrue to SMAI, including the lease or sublease of all business or commercial ventures and activities consistent with the Manila International Airport's operations.

*B. Legislative Franchise*

On December 20, 2020, RA No. 11506 lapsed into law, granting SMAI a franchise to construct, develop, establish, operate and maintain a domestic and international airport in the municipality of Bulakan and to construct, develop, establish, operate and maintain an adjacent Airport City (the Manila International Airport Project). The franchise is for a period of 50 years. RA No. 11506 became effective on January 15, 2021 and enhances the earlier Concession Agreement.

The salient features of RA No. 11506 are as follows:

1. SMAI shall be exempt from any and all direct and indirect taxes of any kind, nature and description, including but not limited to income taxes, value-added taxes, excise taxes, customs duties and tariffs, business taxes, among others during a ten-year construction period beginning from the effectivity of RA No.11506 After the construction period, SMAI shall be exempt from income and real estate taxes until SMAI has fully recovered the costs incurred in the construction of the Manila International Airport Project.

2. After SMAI has fully recovered the costs, SMAI shall be entitled to generate income from its operations equivalent to an internal rate of return of 12% per annum. Any amount in excess shall be remitted to the national government.

3. SMAI is also required to offer at least 20% of its outstanding capital stock to any securities exchange in the Philippines for public participation within 5 years upon full recovery of costs incurred in the construction of the Manila International Airport Project.

- *MRT 7 Concession Agreement*

The ROP awarded ULC BVI the financing, design, construction, supply, completion, testing, commissioning and operation and maintenance of the MRT 7 Project through a NOA issued on January 31, 2008. The MRT 7 Project is an integrated transportation system, under a Build-Gradual Transfer-Operate, Maintain and Manage scheme, which is a modified Build-Transfer-Operate arrangement under RA No. 6957, as amended by RA No. 7718, otherwise known as the BOT Law, and its Revised Implementing Rules and Regulations, to address the transportation needs of passengers and to alleviate traffic in Metro Manila, particularly traffic going to and coming from North Luzon.

On June 18, 2008, ULC BVI entered into the MRT 7 Agreement or Concession Agreement with the ROP through the DOTr, for a 25-year concession period, subject to extensions as may be provided for under the Concession Agreement and by law. Based on the Concession Agreement, ULC BVI has been granted the right to finance, design, test, commission, construct and operate and maintain the MRT 7 Project, which consists of a highway, Intermodal Transport Terminal and Metro Rail Transit System including the depot and rolling stock.

The ROP through the DOTr granted ULC BVI the following rights under the Concession Agreement:

- To finance, design, construct, supply, complete and commission the MRT 7 Project;
- To designate a Facility Operator and/or a Maintenance Provider to Operate and Maintain the MRT 7 Project;
- To receive the Amortization Payments and the Revenue Share as specified in the Concession Agreement;
- To charge and collect the Agreed Fares or the Actual Fares and/or to receive the Fare Differential, if any;
- Development Rights as specified in the Concession Agreement; and
- To do any and all acts which are proper, necessary or incidental to the exercise of any of the above rights and the performance of its obligations under the Concession Agreement.

The salient features of the Concession Agreement are presented below:

1. The MRT 7 Project cost shall be financed by ULC BVI through debt and equity at a ratio of approximately 75:25 and in accordance with existing BSP regulations on foreign financing components, if any. Based on the Concession Agreement, ULC BVI's estimated capital commitment to develop the MRT 7 Project amounts to US$1,236, adjusted to 2008 prices at US$1,540 per National Economic and Development Authority Investment Coordination Committee approval on July 14, 2014.

2. ULC BVI shall post a Performance Security for Construction and Operations and Maintenance in favor of the ROP as guarantee for faithful performance by ULC BVI to develop the MRT 7 Project. This performance security for operations and maintenance shall be reduced every year of the concession period to the amounts as specified in the Concession Agreement.

3. All rail-based revenues above 11.90% internal rate of return of ULC BVI for the MRT 7 Project over the cooperation period, which means the period covering the construction and concession period, shall be shared equally by ULC BVI and the ROP at the end of the concession period. All rail-based revenues above 14% internal rate of return shall wholly accrue to the ROP.

4. As payment for the gradual transfer of the ownership of the assets of the MRT 7 Project, the ROP shall pay ULC BVI a fixed amortization payment on a semi-annual basis in accordance with the schedule of payment described in the Concession Agreement. The ROP's amortization payment to ULC BVI shall start when the MRT 7 Project is substantially completed.

5. For every semi-annual full payment made by the ROP through the DOTr, and actually received by ULC BVI, the latter shall issue a Certificate of Transfer of Ownership, in favor of the former representing a pro-indiviso interest in the assets of the MRT 7 Project in proportion to the amortization payment made over the total amortization payment to be made during the concession period. After the end of the concession period but provided that all the amortization payment and other amounts due to ULC BVI under the Concession Agreement shall have been fully paid, settled and otherwise received by ULC BVI, full ownership of the assets of the MRT 7 Project shall be transferred to it, free from all liens and encumbrances.

6. The amortization payments shall be adjusted pursuant to the escalation formula based on parametric formula for price adjustment reflecting changes in the prices of labor, materials and equipment necessary in the implementation/completion of the MRT 7 Project both local and at the country where the equipment/components shall be sourced.

7. Net passenger revenue shall be shared by the ROP and ULC BVI on a 30:70 basis.

8. The ROP grants ULC BVI the exclusive and irrevocable commercial Development Rights (including the right to lease or sublease or assign interests in, and to collect and receive any and all income from, but not limited to, advertising, installation of cables, telephone lines, fiber optics or water mains, water lines and other business or commercial ventures or activities over all areas and aspects of the MRT 7 Project with commercial development potentials) from the effectivity date of the Concession Agreement until the end of the concession period, which can be extended for another 25 years, subject to the ROP's approval. In consideration of the Development Rights granted, ULC BVI or its assignee shall pay the ROP 20% of the net income before tax actually realized from the exercise of the Development Rights.

9. Upon the expiration of the concession period and payment in full of the amortization payments and the other obligations of the ROP through the DOTr, the Concession Agreement shall be deemed terminated, and all the rights and obligations thereunder shall correspondingly cease to exist, other than all rights and obligations accrued prior to the date of such expiration including, without limitation, the obligations of ROP through the DOTr to make termination payments in accordance with the Concession Agreement and following expiration of the concession period, the Development Rights of ULC BVI pursuant to the Concession Agreement shall survive.

10. If ULC BVI and ROP through the DOTr are not able to agree on the solution to be adopted in an appropriate Variation Order within the period specified in the Concession Agreement, then ULC BVI may proceed to terminate the Concession Agreement. Also, if either of ULC BVI and ROP through the DOTr intends to terminate the Concession Agreement, by mutual agreement under the Concession Agreement, it shall give a notice of intention to terminate to the other. Following receipt of the Intent Notice, the parties shall meet for a period of up to eight weeks and endeavor to agree on the terms, conditions arrangements, and the necessary payments for such termination. If at the expiration of the said period, ULC BVI and ROP through the DOTr are unable to agree on and execute an agreement for the mutual termination of the Concession Agreement, the same shall remain valid and in effect.

On July 23, 2014, the ROP through the DOTr confirmed their obligations under the MRT 7 Agreement dated June 18, 2008 through the Performance Undertaking issued by the Department of Finance, which was received by ULC BVI on August 19, 2014. The Performance Undertaking is a recognition of the obligations of the ROP through the DOTr under the Concession Agreement, particularly the remittance of semi-annual amortization payment in favor of ULC BVI. The issuance of the Performance Undertaking triggers the obligation of ULC BVI to achieve financial closure within 18 months from the date of the receipt of the Performance Undertaking. Within the aforementioned period, ULC BVI achieved Financial Closure, as defined in the MRT 7 Agreement. There were no changes in the terms of the Concession Agreement in 2021.

On April 20, 2016, ULC BVI through the Parent Company, led the ground breaking ceremony for the MRT 7 Project.

Pursuant to Section 19.1 of the Concession Agreement, on September 30, 2016, ULC BVI sent a request letter to the ROP through the DOTr to secure the latter's prior approval in relation to the intention of ULC BVI to assign all its rights and obligations under the Concession Agreement to SMC MRT 7, the

designated special purpose company for the MRT 7 Project. The assignment of the rights and obligations from ULC BVI to SMC MRT 7 will be achieved through execution of Accession Agreement. Based on the Concession Agreement, ULC BVI may assign its rights, title, interests or obligations therein, provided that the following conditions are met:

- The assignment will not in any way diminish ULC BVI's principal liability under the Concession Agreement; and

- ULC BVI secures from ROP, through the DOTr, its prior approval, which shall not be unreasonably withheld.

In addition, the letter dated September 30, 2016 from ULC BVI also requested that upon submission by SMC MRT 7 of the lenders' recognition that the Financing Agreements for the MRT 7 Project is for its benefit, the DOTr shall cause the amendment of the Performance Undertaking dated July 23, 2014 by changing the addressee and beneficiary thereof from ULC BVI to SMC MRT 7.

On December 12, 2016, the ROP through the DOTr gave its consent to the assignment of all the rights and obligations of ULC BVI under the Concession Agreement to SMC MRT 7.

Following the DOTr's approval, SMC MRT 7 and ULC BVI carried out the Accession Agreement on January 12, 2017.

- *Toll Road Concession Agreements*

  *i. SLEX*

  On February 1, 2006, SMC SLEX executed the Supplemental Toll Operation Agreement (STOA) with MATES, Philippine National Construction Corporation (PNCC) and the ROP through the TRB. The STOA authorizes SMC SLEX 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, SMC SLEX received a letter from the Department of Finance informing SMC SLEX of the conveyance by PNCC to the ROP of its shares of stock in SMC SLEX, by way of deed of assignment. Moreover, SMC SLEX 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 SMC SLEX in favor of the ROP.

  On July 21, 2015, SMC SLEX entered into a MOA with Ayala Corporation (AC), on the inter-operability of the SLEX and Muntinlupa-Cavite Expressway (MCX) (formerly known as the Daang Hari-SLEX Connector Road). AC is the concession holder of MCX while MCX Tollway, Inc. is the facility operator of MCX.

  The MOA on inter-operability provides the framework that will govern the interface and integration of the technical operations and toll operation systems between the MCX and the SLEX, to ensure seamless travel access into MCX and SLEX for road users. MCX opened and operated as a toll expressway on July 24, 2015.

  In 2019, SMC SLEX commenced the construction of TR4 and is ongoing as at December 31, 2021.

  *ii. NAIA Expressway*

  On July 8, 2013, SMC NAIAX entered into a Concession Agreement with the ROP, through the Department of Public Works and Highways (DPWH), wherein SMC NAIAX 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, SMC NAIAX 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, SMC NAIAX 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 SMC Skyway, 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 SMC Skyway 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 SMC Skyway to nominate to the TRB a qualified party to perform the operations and maintenance of the SMMS to replace PSC. SMC Skyway, 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 SMC Skyway 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 SMC Skyway, 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, SMC Skyway 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. SMC Skyway 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, MMSS3 as the Investor, and Central Metro Manila Skyway Corporation (CMMSC) as the Operator, wherein MMSS3 was granted the primary and exclusive privilege, responsibility, and obligation to design and construct the Skyway Stage 3 Project, and to finance the same, while CMMSC was granted the primary and exclusive privilege, responsibility, and obligation to operate and maintain the Skyway Stage 3 Project.

  The Skyway Stage 3 Project is an elevated roadway with the entire length of approximately 18.83 km from Buendia Avenue in Makati to Balintawak, Quezon City and will connect to the existing Skyway Stage 1 and 2. This is envisioned to inter-connect the northern and southern areas of Metro Manila to help decongest traffic in Metro Manila and stimulate the growth of trade and industry in Luzon, outside of Metro Manila.

  The Skyway Stage 3 Project shall be owned by the ROP, without prejudice to the rights and the entitlements of MMSS3 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 MMSS3 and/or CMMSC.

  MMSS3 and CMMSC shall enter into a revenue sharing agreement to set forth the terms and conditions of their sharing of the toll revenues from the Skyway Stage 3 Project.

  On December 29, 2020, the Skyway Stage 3 Project was partially opened to the public. It was formally inaugurated and opened to motorists on January 14, 2021, free of toll fee. On July 1, 2021, MMSS3 received the Toll Operation Permit and started its toll operation.

- 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, MMSS4 as the Investor, and Metro O&M Corporation (MOMCO) as the Operator. MMSS4 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 MMSS4 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 MMSS4 and/or MOMCO.

  As at December 31, 2021, the Skyway Stage 4 Project is in the inception of its construction stage.

*iv. TPLEX*

SMCTC entered into a Concession Agreement with the ROP through the DPWH and the TRB to finance, design, construct, operate and maintain and impose and collect tolls from the users of the TPLEX Project. The TPLEX Project is a toll expressway from La Paz, Tarlac to Rosario, La Union which is approximately 89.21 kilometers and consists of four-lane expressway with nine toll plazas from start to end.

The TPLEX Project shall be owned by the ROP without prejudice to the rights and entitlement of SMCTC. The legal transfer of ownership of the TPLEX Project shall be deemed to occur automatically on a continuous basis in accordance with the progress of construction and upon issuance of the Certificate of Substantial Completion for each segment of the TPLEX Project.

The toll revenue collected from the operation of the TPLEX Project is the property of SMCTC. SMCTC shall have the right to assign or to enter into such agreements with regard to the toll revenue and its collection, custody, security and safekeeping.

The concession period shall be for a term of 35 years starting from the effective date of the Concession Agreement and may be extended.

On October 31, 2013, SMCTC opened the first section of the TPLEX Project from Tarlac to Gerona. The Section 1B from Gerona to Rosales was opened to motorists on December 23, 2013. The 30.31-km stretch from Gerona to Carmen was fully operational on April 16, 2014. The 14.91-km stretch from Carmen (Tomana) to Urdaneta was fully operational starting February 17, 2015.

On July 28, 2016, the Segment 7A (Urdaneta to Binalonan) was opened. Segment 7B (Binalonan to Pozorrubio) was opened to motorists on December 7, 2017, while Segment 8 (Pozorrubio to Rosario), which is the final phase of the TPLEX Project, was completed and became operational on July 15, 2020.

*v. STAR*

On June 18, 1998, SIDC and the ROP, individually and collectively through the DPWH and the TRB, entered into a Toll Concession Agreement covering the STAR Project. The STAR Project consists of two stages as follows:

| Stage | Project Description |
|---|---|
| Stage I | Operations and maintenance of the 22.16-km toll road from Sto. Tomas, Batangas to Lipa City, Batangas |
| Stage II (Phases I and II) | Finance, design, construction, operations and maintenance of the 19.74-km toll road from Lipa City, Batangas to Batangas City, Batangas |

Under the Toll Concession Agreement, the STAR Project and any stage or phase or ancillary facilities thereof of a fixed and permanent nature shall be owned by the ROP, without prejudice to the rights and entitlements of SIDC. The legal transfer of ownership of the STAR Project and/or any stage, phase or ancillary thereof shall be deemed to occur automatically on a continuous basis in accordance with the progress of the construction and upon the ROP's issuance of the Certificate of Substantial Completion. The right of way shall be titled in the ROP's name regardless of the construction.

In December 2006, the Toll Concession Agreement was amended to extend the original concession period from 30 years beginning January 1, 2000 to 36 years and shall be valid until December 31, 2035.

The TRB issued the Toll Operations Certificate for Stage II Phase II on December 13, 2016.

*vi. Pasig River Expressway (PAREX)*

On November 29, 2019, the PNCC and SMHC, as joint proponents, submitted to the ROP through the TRB, the Joint Investment Proposal covering the PAREX Project. The said proposal embodied, among others, that SMHC in cooperation with PNCC committed itself to finance, design and construct the PAREX Project in three segments. The Joint Investment Proposal was approved by the TRB on March 4, 2020 and the STOA was executed on September 21, 2021 by and among PREC, SOMCO, PNCC and the ROP acting through the TRB. Under the STOA, the design and the construction of the PAREX and the financing thereof, shall be the primary and exclusive privilege, responsibility and obligation of PREC as investor. Whereas, the operations and maintenance of the PAREX Project shall be the primary and exclusive privilege, responsibility and obligation of SOMCO as operator.

The PAREX Project shall consist of three segments:

| | | |
|---|---|---|
| Segment I | - | Radial Road No. 10 to Skyway Stage 3 to Plaza Azul, approximately 5.740 km |
| Segment II | - | Skyway Stage 3 to San Juan River Circumferential Road No. 5 (C-5), approximately 7.325 km |
| Segment III | - | C-5 to Southeast Metro Manila Expressway or (C-6), approximately 6.300 km |

The PAREX shall be owned by the ROP, without prejudice to the rights and entitlement of PREC and SOMCO under the STOA. The legal transfer of ownership of the PAREX 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 between PREC and SOMCO for the operations and maintenance of the PAREX.

The 30-year franchise period shall commence from the issuance of the Toll Operation Certificate.

Under the STOA, PREC may file an application to adjust the toll rates which shall be of two kinds, namely periodic and contingency. Periodic adjustments can be applied every two years of the existing toll rate to a new toll rate on the respective toll review date. On the other hand, contingency adjustment can be applied upon the occurrence of a force majeure event and/or additional cost of any required repair or reconstruction works arising out of force majeure to the extent not covered by insurance.

o *Water Concession Agreements*

On December 7, 2015, MWSS issued a NOA to SMC - K-water Consortium (the Consortium) awarding the Bulacan Bulk Water Supply Project. In accordance with the NOA, the LCWDC was registered by the Consortium as the concessionaire.

On January 15, 2016, a Concession Agreement was executed between MWSS and LCWDC for a 30-year period, subject to extensions as may be provided for under the Concession Agreement. The Bulacan Bulk Water Supply Project shall comprise of the supply of treated bulk water, planning, financing, development, design, engineering and construction of facilities including the management, operation and maintenance in order to alleviate the chronic water shortage and provide potable water needs of the province of Bulacan.

On January 24, 2019, LCWDC commenced operations upon issuance of the Certificate of Final Acceptance by the MWSS for the completion of all works required under Stage 1 of the Bulacan Bulk Water Supply Project.

On April 25, 2019, the MWSS issued the Certificate of Final Acceptance for Stage 2 of the Bulacan Bulk Water Supply Project.

Upon issuance of the Certificate of Final Acceptance by MWSS for completion of all works for Stage 1, LCWDC has officially commenced its operations and started delivery of potable bulk water to the first seven Water Districts of Bulacan. Thereafter, on 24 April 2020, LCWDC has successfully completed Stages 1 & 2 of the Project and delivered bulk water to a total of 12 Water Districts.

Other salient features of the Concession Agreement are as follows:

1. LCWDC shall pay annual water rights fee to the Provincial Government of Bulacan amounting to P5 for the first five years of operation, subject to adjustment based on the Concession Agreement starting on the sixth contract year onwards.

2. LCWDC shall pay an annual Concession Fee and Operation and Maintenance Fee to MWSS amounting to the equivalent of 2.5% of the Annual Gross Revenue of LCWDC and P5, respectively.

3. MWSS and the Water Service Providers (WSPs) of the Province of Bulacan entered into a Memoranda of Understanding where the parties agreed to cooperate with each other towards the successful implementation of the Bulacan Bulk Water Service Project. Pursuant thereto, MWSS, LCWDC, and the individual WSPs for Stages 1 & 2 has entered into individual MOA where the MWSS, through LCWDC, has committed to supply the potable bulk water and the WSPs have agreed to accept the water and/or pay the Bulk Water Charges at the rate of Eight Pesos and Fifty Centavos plus VAT, subject to certain adjustments as provided under the Concession Agreement and the MOA.

4. LCWDC utilized the National Housing Authority (NHA) site for the water treatment facility. The NHA site is the 5.5 hectares located at Pleasant Hills, San Jose Del Monte, Bulacan intended as the site for the water treatment facility. LCWDC paid in staggered cash in the aggregate amount of P165.

5. At the end of the concession period, LCWDC shall transfer the facilities to MWSS in the condition required for turnover as described in the Minimum Performance Standards and Specifications of the Concession Agreement.

- Food and Beverage

  - *Toll Agreements*

    The significant subsidiaries of SMFB have entered into toll processing with various contract growers, breeders, contractors and processing plant operators (collectively referred to as the "Parties"). The terms of the agreements include the following, among others:

    - The Parties have the qualifications to provide the contracted services and have the necessary manpower, facilities and equipment to perform the services contracted.

    - Tolling fees paid to the Parties are based on the agreed rate per acceptable output or processed product. The fees are normally subject to review in cases of changes in costs, volume and other factors.

    - The periods of the agreement vary. Negotiations for the renewal of any agreement generally commence six months before expiry date.

    Total tolling expenses included as part of "Cost of sales" account in the consolidated statements of income amounted to P6,816, P7,493 and P8,959 in 2021, 2020 and 2019, respectively (Note 26).

- Cement

  - *Mineral Production Sharing Agreement (MPSA)*

    NCC has an existing MPSA granted by the Philippine Government through the Department of Environment and Natural Resources (DENR). Details of the MPSA are as follows:

| MPSA No. | Location | Date of Issuance |
|---|---|---|
| 106-98-1 | Labayug, Sison, Pangasinan | March 12, 1998 |

This MPSA has a term of 25 years from the date of issuance and may be renewed thereafter for another term not exceeding 25 years.

NCC has the following key commitments under its MPSA:

- The Philippine Government share shall be the excise tax on mineral products at the time of removal and at the rate provided for in RA No. 7729 amending Section 151 (a) of the Revised National Internal Revenue Code, as well as other taxes, duties and fees levied by existing laws.

  Excise taxes paid to the Philippine Government aggregated to P12 and P13 in 2021 and 2020, respectively.

- Allotment of a minimum of 1.5% of the direct drilling and milling costs necessary to implement the activities for community development.

  As at December 31, 2021, allotment made amounted to P5.

On July 23, 2021, NCC filed its MPSA renewal to the DENR and is pending approval as at March 10, 2022.

Lease Commitments

- Group as Lessor

The Group has entered into operating leases on its investment property portfolio, consisting of certain service stations and other related structures, machinery and equipment, surplus office spaces as well as leased property (Note 15). These non-cancellable leases will expire up to year 2036. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

| | **2021** | 2020 |
|---|---|---|
| Within one year | **P532** | P856 |
| One to two years | **508** | 656 |
| Two to three years | **501** | 653 |
| Three to four years | **495** | 619 |
| Four to five years | **497** | 573 |
| More than five years | **6,733** | 9,552 |
| | **P9,266** | P12,909 |

Rent income recognized in the consolidated statements of income amounted to P1,496, P1,382 and P1,751 in 2021, 2020 and 2019, respectively (Notes 4 and 32). Income from sub-leasing recognized in the consolidated statements of income amounted to P796, P1,054 and P1,395 in 2021, 2020 and 2019, respectively.

## 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, 2021. 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 | **2021** | 2020 |
| **Balance at beginning of year** | **P29,064** | P30,869 | **(P31,617)** | (P33,265) | **(P1,642)** | (P1,747) | **(P4,195)** | (P4,143) |
| **Benefit asset (obligation) of consolidated subsidiaries** | **-** | 338 | **-** | (554) | **-** | - | **-** | (216) |
| **Recognized in Profit or Loss** | | | | | | | | |
| Current service costs | **-** | - | **(1,735)** | (1,816) | **-** | - | **(1,735)** | (1,816) |
| Past service costs | **-** | - | **(1,708)** | (14) | **-** | - | **(1,708)** | (14) |
| Interest expense | **-** | - | **(1,225)** | (1,695) | **-** | - | **(1,225)** | (1,695) |
| Interest income | **1,101** | 1,571 | **-** | - | **-** | - | **1,101** | 1,571 |
| Interest on the effect of asset ceiling | **-** | - | **-** | - | **(62)** | (89) | **(62)** | (89) |
| | **1,101** | 1,571 | **(4,668)** | (3,525) | **(62)** | (89) | **(3,629)** | (2,043) |
| **Recognized in Other Comprehensive Income** | | | | | | | | |
| Remeasurements | | | | | | | | |
| Actuarial gains (losses) arising from: | | | | | | | | |
| Experience adjustments | **-** | - | **862** | 2,532 | **-** | - | **862** | 2,532 |
| Changes in financial assumptions | **-** | - | **2,014** | (649) | **-** | - | **2,014** | (649) |
| Changes in demographic assumptions | **-** | - | **(10)** | 49 | **-** | - | **(10)** | 49 |
| Return on plan assets excluding interest income | **(606)** | (2,483) | **-** | - | **-** | - | **(606)** | (2,483) |
| Changes in the effect of asset ceiling | **-** | - | **-** | - | **(117)** | 194 | **(117)** | 194 |
| | **(606)** | (2,483) | **2,866** | 1,932 | **(117)** | 194 | **2,143** | (357) |
| **Others** | | | | | | | | |
| Contributions | **2,650** | 2,317 | **-** | - | **-** | - | **2,650** | 2,317 |
| Benefits paid | **(2,760)** | (3,463) | **2,876** | 3,659 | **-** | - | **116** | 196 |
| Transfers from other plans | **3** | 221 | **(3)** | (239) | **-** | - | **-** | (18) |
| Transfers to other plans | **(1)** | (274) | **1** | 292 | **-** | - | **-** | 18 |
| Other adjustments | **54** | (32) | **6** | 83 | **-** | - | **60** | 51 |
| | **(54)** | (1,231) | **2,880** | 3,795 | **-** | - | **2,826** | 2,564 |
| **Balance at end of year** | **P29,505** | P29,064 | **(P30,539)** | (P31,617) | **(P1,821)** | (P1,642) | **(P2,855)** | (P4,195) |

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

Retirement costs (benefits) recognized in the consolidated statements of income by the Parent Company amounted to P17, P34 and (P13) in 2021, 2020 and 2019, respectively (Notes 29 and 31).

Retirement costs recognized in the consolidated statements of income by the subsidiaries amounted to P3,612, P2,009 and P1,391 in 2021, 2020 and 2019, respectively (Notes 29, 30 and 31). In 2021, certain subsidiaries made amendments to their respective Retirement Plans in terms of the percentage of final pay based on the adjusted credited years of service. As a result, the Group recognized past service costs amounting to P1,708.

As at December 31, 2021, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P4,175 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P187 and P6,843, respectively (Notes 20 and 22).

As at December 31, 2020, net retirement assets and liabilities, included as part of "Other noncurrent assets - net" account, amounted to P2,699 (Note 18) and under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts, amounted to P160 and P6,734, respectively (Notes 20 and 22).

The carrying amounts of the Group's retirement fund approximate fair values as at December 31, 2021 and 2020.

The Group's plan assets consist of the following:

| | In Percentages | |
|---|---|---|
| | **2021** | 2020 |
| Investments in marketable securities and shares of stock | **76.87** | 76.58 |
| Investments in pooled funds: | | |
| Fixed income portfolio | **6.58** | 7.61 |
| Stock trading portfolio | **1.45** | 1.95 |
| Investments in real estate | **1.53** | 1.56 |
| Others | **13.57** | 12.30 |

*Investments in Marketable Securities*

As at December 31, 2021 the plan assets include:

- 49,564,147 common shares and 8,038,270 Subseries "2-F", 264,840 Subseries "2-H", 9,782,770 Subseries "2-I", 3,491,300 Subseries "2-J" and 4,007,900 Subseries "2-K" preferred shares of the Parent Company with fair market value per share of P114.90, P79.25, P75.95, P79.65, P76.50 and P75.85, respectively;
- 753,454,797 common shares and 474,160 preferred shares of Petron with fair market value per share of P3.17 and P1,119.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 19,386,620 common shares of GSMI with fair market value per share of P113.80;
- 15,245,750 common shares of SMFB with fair market value per share of P71.40;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- 5,997,311 common shares of Top Frontier with fair market value per share of P127.70.

As at December 31, 2020 the plan assets include:

- 50,033,387 common shares and 4,231,050 Subseries "2-E", 8,038,270 Subseries "2-F", 103,730 Subseries "2-G", 264,840 Subseries "2-H", 9,782,770 Subseries "2-I", 3,379,100 Subseries "2-J" and 4,007,900 Subseries "2-K" preferred shares of the Parent Company with fair market value per share of P128.10, P75.40, P77.30, P75.80, P78.00, P76.80, P75.50 and P75.50, respectively;

- 747,008,797 common shares and 460,000 preferred shares of Petron with fair market value per share of P3.99 and P1,114.00, respectively;
- 33,635,700 common shares of SMB with fair market value per share of P20.00;
- 22,868,770 common shares of GSMI with fair market value per share of P49.40;
- 12,487,440 common shares of SMFB with fair market value per share of P67.00;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- 5,994,811 common shares of Top Frontier with fair market value per share of P140.00.

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 P21, (P1,876) and (P1,811) in 2021, 2020 and 2019, respectively.

Dividend income from the investment in shares of stock of the Parent Company and its subsidiaries amounted to P369, P375 and P495 in 2021, 2020 and 2019, respectively.

*Investments in Shares of Stock*

a. BOC

San Miguel Corporation Retirement Plan (SMCRP) has 432,626,860 and 44,834,286 common shares representing 38.54% and 39.94% equity interest in BOC, accounted for under the equity method amounting to P10,064 and P9,952 as at December 31, 2021 and 2020, respectively.

In October 2021, SMCRP sold to SMCEC its 1,571,600 common shares of BOC equivalent to 1.4% equity interest amounting to P356 (Note 11).

As discussed in Note 11, the Articles of Incorporation of BOC was amended for the change in the par value of its common and preferred shares from P100.00 per share to P10.00 per share. As a result, SMCRP's investment in BOC's common shares increased from 43,262,686 to 432,626,860 common shares.

SMCRP recognized its share in total comprehensive income of BOC amounting to P468 and P268 in 2021 and 2020, respectively.

b. BPI

The Group's plan assets also include San Miguel Brewery Inc. Retirement Plan's investment in 8,608,494 preferred shares of stock of BPI (inclusive of nominee shares), accounted for under the cost method since cost approximates fair value, amounting to P859 as at December 31, 2021 and 2020.

*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 65% and 75% 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, 2021 and 2020, respectively.

Approximately 67% and 66% 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, 2021 and 2020, respectively.

*Investments in Real Estate*
The Retirement Plans of the Group have investments in real estate properties. The fair value of investment property amounted to P634 as at December 31, 2021 and 2020.

*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 P1,586 to the Retirement Plans in 2022.

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 | |
|---|---|---|
| | **2021** | 2020 |
| Discount rate | **0.40 - 6.75** | 0.40 - 7.00 |
| Salary increase rate | **2.00 - 6.50** | 2.00 - 8.80 |

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 3.9 to 24.9 years and 4.9 to 26.0 years as at December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020, 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 | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| | **1 Percent Increase** | **1 Percent Decrease** | 1 Percent Increase | 1 Percent Decrease |
| Discount rate | **(P1,648)** | **P1,954** | (P1,996) | P2,295 |
| Salary increase rate | **2,148** | **(1,880)** | 2,311 | (2,028) |

The outstanding balances of the Group's receivable from the retirement plans are as follows:

a. The Parent Company has advances to and receivables from SMCRP amounting to P7,666 and P7,482 as at December 31, 2021 and 2020, respectively, included as part of "Amounts owed by related parties" under "Trade and other receivables - net" account in the consolidated statements of financial position (Notes 8 and 33). Portion of the advances are subject to interest per annum of 5.75% in 2021 and 2020. Interest income earned from the advances amounted to P188 and P189 in 2021 and 2020, respectively (Notes 31 and 33).

b. Petron has advances to Petron Corporation Employee Retirement Plan (PCERP) amounting to P1,138 and P1,562 as at December 31, 2021 and 2020, 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 per annum of 5% in 2021 and 2020. Interest income earned from the advances amounted to P78 and P93 in 2021 and 2020, respectively (Notes 31 and 33).

   In 2021 and 2020, portion of Petron's interest bearing advances to PCERP were converted into contribution to the retirement plan.

Transactions with the Retirement Plans are made at normal market prices and terms. Outstanding balances as at December 31, 2021 and 2020 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 2021, 2020 and 2019.

## 36. Cash Dividends and Distributions

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

**2021**

| Class of Shares | Date of Declaration | Date of Record | Date of Payment | Dividend Per Share |
|---|---|---|---|---|
| **Common** | | | | |
| | March 11, 2021 | April 5, 2021 | April 30, 2021 | **P0.35** |
| | June 8, 2021 | July 2, 2021 | July 28, 2021 | **0.35** |
| | September 9, 2021 | October 8, 2021 | October 29, 2021 | **0.35** |
| | December 2, 2021 | January 4, 2022 | January 21, 2022 | **0.35** |
| **Preferred** | | | | |
| SMC2C | January 21, 2021 | March 19, 2021 | April 5, 2021 | **1.50** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **1.50** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **1.50** |
| SMC2E | January 21, 2021 | March 19, 2021 | April 5, 2021 | **1.18603125** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **1.18603125** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **1.18603125** |

*Forward*

| Class of Shares | Date of Declaration | Date of Record | Date of Payment | Dividend Per Share |
|---|---|---|---|---|
| SMC2F | January 21, 2021 | March 19, 2021 | April 5, 2021 | **P1.27635** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **1.27635** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **1.27635** |
| | November 11, 2021 | December 21, 2021 | January 7, 2022 | **1.27635** |
| SMC2G | January 21, 2021 | March 19, 2021 | April 5, 2021 | **1.23361875** |
| SMC2H | January 21, 2021 | March 19, 2021 | April 5, 2021 | **1.1854125** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **1.1854125** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **1.1854125** |
| | November 11, 2021 | December 21, 2021 | January 7, 2022 | **1.1854125** |
| SMC2I | January 21, 2021 | March 19, 2021 | April 5, 2021 | **1.18790625** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **1.18790625** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **1.18790625** |
| | November 11, 2021 | December 21, 2021 | January 7, 2022 | **1.18790625** |
| SMC2J | January 21, 2021 | March 19, 2021 | April 5, 2021 | **0.890625** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **0.890625** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **0.890625** |
| | November 11, 2021 | December 21, 2021 | January 7, 2022 | **0.890625** |
| SMC2K | January 21, 2021 | March 19, 2021 | April 5, 2021 | **0.84375** |
| | May 6, 2021 | June 21, 2021 | July 2, 2021 | **0.84375** |
| | August 5, 2021 | September 21, 2021 | October 1, 2021 | **0.84375** |
| | November 11, 2021 | December 21, 2021 | January 7, 2022 | **0.84375** |

2020

| Class of Shares | Date of Declaration | Date of Record | Date of Payment | Dividend Per Share |
|---|---|---|---|---|
| Common | | | | |
| | March 12, 2020 | April 3, 2020 | April 30, 2020 | P0.35 |
| | June 30, 2020 | July 15, 2020 | July 31, 2020 | 0.35 |
| | September 10, 2020 | October 9, 2020 | October 30, 2020 | 0.35 |
| | December 3, 2020 | January 4, 2021 | January 22, 2021 | 0.35 |
| 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 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.50 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.50 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.50 |
| SMC2D | January 23, 2020 | March 20, 2020 | April 3, 2020 | 1.11433125 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.11433125 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.11433125 |
| SMC2E | January 23, 2020 | March 20, 2020 | April 3, 2020 | 1.18603125 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.18603125 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.18603125 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.18603125 |
| SMC2F | January 23, 2020 | March 20, 2020 | April 3, 2020 | 1.27635 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.27635 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.27635 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.27635 |
| SMC2G | January 23, 2020 | March 20, 2020 | April 3, 2020 | 1.23361875 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.23361875 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.23361875 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.23361875 |
| SMC2H | January 23, 2020 | March 20, 2020 | April 3, 2020 | 1.1854125 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.1854125 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.1854125 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.1854125 |

*Forward*

| Class of Shares | Date of Declaration | Date of Record | Date of Payment | Dividend Per Share |
|---|---|---|---|---|
| SMC2I | January 23, 2020 | March 20, 2020 | April 3, 2020 | P1.18790625 |
| | May 28, 2020 | June 19, 2020 | July 3, 2020 | 1.18790625 |
| | August 6, 2020 | September 21, 2020 | October 5, 2020 | 1.18790625 |
| | November 5, 2020 | December 18, 2020 | January 8, 2021 | 1.18790625 |
| SMC2J | November 5, 2020 | December 18, 2020 | January 8, 2021 | 0.890625 |

On February 10, 2022, the BOD of the Parent Company declared cash dividends to all preferred stockholders of record as at March 21, 2022 on the following shares to be paid on April 1, 2022, as follows:

| Class of Shares | Dividends Per Share |
|---|---|
| SMC2F | P1.27635 |
| SMC2H | 1.1854125 |
| SMC2I | 1.18790625 |
| SMC2J | 0.890625 |
| SMC2K | 0.84375 |

On March 10, 2022, the BOD of the Parent Company declared cash dividends at P0.35 per share to all common shareholders of record as at April 1, 2022 to be paid on April 29, 2022.

Distributions

The Parent Company paid P200 and P1,804 to the holders of RPS and SPCS, respectively, in 2021 and P238 to the holders of RPS in 2020, as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Parent Company.

## 37. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

| | ***Note*** | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| Net income attributable to equity holders of the Parent Company | | **P13,925** | P2,973 | P21,329 |
| Dividends on preferred shares | *24, 36* | **(6,002)** | (6,083) | (7,187) |
| Distributions to capital securities | *24, 36* | **(2,004)** | (857) | - |
| Net income (loss) attributable to common shareholders of the Parent Company (a) | | **P5,919** | (P3,967) | P14,142 |
| Weighted average number of common shares outstanding (in millions) - basic and diluted (b) | | **2,384** | 2,384 | 2,384 |
| Basic and diluted earnings (loss) per common share attributable to equity holders of the Parent Company (a/b) | | **P2.48** | (P1.66) | P5.93 |

As at December 31, 2021, 2020 and 2019, the Parent Company has no dilutive debt or equity instruments.

## 38. Supplemental Cash Flow Information

Supplemental information with respect to the consolidated statements of cash flows is presented below:

a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the consolidated statements of financial position):

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| Trade and other receivables - net | **(P34,503)** | P8,591 | (P10,539) |
| Inventories | **(36,751)** | 26,503 | (8,949) |
| Prepaid expenses and other current assets | **(13,006)** | (5,329) | 4,395 |
| Accounts payable and accrued expenses | **37,519** | (18,154) | 34,369 |
| Income and other taxes payable and others | **3,133** | 1,212 | (2,886) |
| | **(P43,608)** | P12,823 | P16,390 |

b. Acquisition of subsidiaries, net of cash and cash equivalents acquired.

| | 2019 |
|---|---|
| Cash and cash equivalents | P301 |
| Trade and other receivables - net | 285 |
| Inventories | 326 |
| Prepaid expenses and other current assets | 154 |
| Property, plant and equipment - net | 1,959 |
| Right-of-use assets - net | 179 |
| Other intangible assets - net | 8 |
| Deferred tax assets | 12 |
| Other noncurrent assets - net | 387 |
| Accounts payable and accrued expenses | (899) |
| Income and other taxes payable | (24) |
| Long-term debt - net of debt issue costs | (48) |
| Deferred tax liabilities | (1) |
| Lease liabilities | (193) |
| Non-controlling interests | (45) |
| Net assets | 2,401 |
| Cash and cash equivalents | (301) |
| Goodwill in subsidiaries | 53 |
| Investments and advances | (745) |
| Net cash flows | P1,408 |

c. Changes in liabilities arising from financing activities

| | Loans Payable | Long-term Debt | Lease Liabilities | Dividends Payable |
|---|---|---|---|---|
| **Balance as at January 1, 2021** | **P140,645** | **P766,909** | **P117,037** | **P4,231** |
| **Changes from Financing Activities** | | | | |
| Proceeds from borrowings | **760,746** | **140,777** | **-** | **-** |
| Payments of borrowings | **(711,147)** | **(113,419)** | **-** | **-** |
| Payments of lease liabilities | **-** | **-** | **(26,151)** | **-** |
| Dividends and distributions paid | **-** | **-** | **-** | **(39,310)** |
| **Total Changes from Financing Activities** | **49,599** | **27,358** | **(26,151)** | **(39,310)** |
| **The Effect of Changes in Foreign Exchange Rates** | **535** | **17,319** | **2,681** | **1** |
| **Other Changes** | **-** | **2,379** | **1,425** | **39,374** |
| **Balance as at December 31, 2021** | **P190,779** | **P813,965** | **P94,992** | **P4,296** |

| | Loans Payable | Long-term Debt | Lease Liabilities | Dividends Payable |
|---|---|---|---|---|
| Balance as at January 1, 2020 | P169,492 | P682,804 | P142,248 | P4,116 |
| Changes from Financing Activities | | | | |
| Proceeds from borrowings | 813,187 | 160,437 | - | - |
| Payments of borrowings | (841,775) | (58,913) | - | - |
| Payments of lease liabilities | - | - | (24,825) | - |
| Dividends and distributions paid | - | - | - | (31,508) |
| Total Changes from Financing Activities | (28,588) | 101,524 | (24,825) | (31,508) |
| The Effect of Changes in Foreign Exchange Rates | (259) | (18,188) | (2,873) | (1) |
| Consolidation of a Subsidiary and Other Changes | - | 769 | 2,487 | 31,624 |
| Balance as at December 31, 2020 | P140,645 | P766,909 | P117,037 | P4,231 |

## 39. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies
The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Market Risk (Interest Rate Risk, Foreign Currency Risk and 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, investments in equity and debt instruments, 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 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, 2021** | **<1 Year** | **1-2 Years** | **>2-3 Years** | **>3-4 Years** | **>4-5 Years** | **>5 Years** | **Total** |
|---|---|---|---|---|---|---|---|
| **Fixed Rate** | | | | | | | |
| Philippine peso-denominated | **P68,436** | **P57,685** | **P95,030** | **P55,159** | **P68,051** | **P145,335** | **P489,696** |
| Interest rate | **3.875% - 9.8754%** | **3.284% - 9.8754%** | **3.284% - 9.8754%** | **3.284% - 9.8754%** | **3.284% - 9.8754%** | **3.3832% - 9.8754%** | |
| Foreign currency-denominated (expressed in Philippine peso) | **1,995** | **6,852** | **1,225** | **1,281** | **1,340** | **12,044** | **24,737** |
| Interest rate | **4.7776% - 5.5959%** | **4.7776% - 5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | **5.5959%** | |
| **Floating Rate** | | | | | | | |
| Philippine peso-denominated | **3,139** | **1,585** | **706** | **119** | **119** | **7,524** | **13,192** |
| 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) | **16,040** | **113,137** | **115,122** | **1,774** | **44,814** | **3,964** | **294,851** |
| 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** | |
| | **P89,610** | **P179,259** | **P212,083** | **P58,333** | **P114,324** | **P168,867** | **P822,476** |

| December 31, 2020 | <1 Year | 1-2 Years | >2-3 Years | >3-4 Years | >4-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|---|
| Fixed Rate | | | | | | | |
| Philippine peso-denominated | P47,064 | P67,112 | P56,017 | P91,422 | P36,513 | P136,808 | P434,936 |
| Interest rate | 4.0032% - 9.885% | 4.2105% - 9.885% | 3.2837% - 9.885% | 3.2837% - 9.885% | 3.2837% - 9.885% | 3.2837% - 9.885% | |
| Foreign currency-denominated (expressed in Philippine peso) | 2,581 | 1,878 | 31,250 | 1,154 | 1,207 | 12,603 | 50,673 |
| Interest rate | 4.7776% - 5.5959% | 4.7776% - 5.5959% | 4.7776% - 5.5959% | 5.5959% | 5.5959% | 5.5959% | |
| Floating Rate | | | | | | | |
| Philippine peso-denominated | 2,572 | 3,876 | 2,321 | 1,442 | 1,618 | 7,646 | 19,475 |
| Interest rate | BVAL + margin or BSP overnight rate, whichever is higher | BVAL + margin or BSP overnight rate, whichever is higher | BVAL + margin or BSP overnight rate, whichever is higher | BVAL + margin or BSP overnight rate, whichever is higher | BVAL + margin or BSP overnight rate, whichever is higher | BVAL + margin or BSP overnight rate, whichever is higher | |
| Foreign currency-denominated (expressed in Philippine peso) | 23,131 | 27,072 | 104,333 | 107,902 | 3,488 | 4,148 | 270,074 |
| Interest rate | LIBOR/applicable reference rate + margin | LIBOR/applicable reference rate + margin | LIBOR/applicable reference rate + margin | LIBOR/applicable reference rate + margin | LIBOR/applicable reference rate + margin | LIBOR/applicable reference rate + margin | |
| | P75,348 | P99,938 | P193,921 | P201,920 | P42,826 | P161,205 | P775,158 |

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 P3,080, P2,895 and P2,184 in 2021, 2020 and 2019, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the 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, 2021** | | December 31, 2020 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| **Assets** | | | | |
| Cash and cash equivalents | **US$3,177** | **P162,053** | US$5,053 | P242,683 |
| Trade and other receivables | **1,215** | **61,951** | 743 | 35,641 |
| Prepaid expenses and other current assets | **14** | **715** | 15 | 749 |
| Noncurrent receivables | **3** | **138** | 4 | 201 |
| | **4,409** | **224,857** | 5,815 | 279,274 |
| **Liabilities** | | | | |
| Loans payable | **331** | **16,884** | 166 | 8,011 |
| Accounts payable and accrued expenses | **2,573** | **131,235** | 1,708 | 82,110 |
| Long-term debt (including current maturities) | **6,267** | **319,588** | 6,679 | 320,747 |
| Lease liabilities (including current portion) | **847** | **43,210** | 1,131 | 54,306 |
| Other noncurrent liabilities | **63** | **3,200** | 212 | 10,216 |
| | **10,081** | **514,117** | 9,896 | 475,390 |
| Net foreign currency-denominated monetary liabilities | **(US$5,672)** | **(P289,260)** | (US$4,081) | (P196,116) |

The Group reported net gains (losses) on foreign exchange amounting to (P4,846), P5,444 and P5,422 in 2021, 2020 and 2019, 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, 2021** | **P50.999** |
| December 31, 2020 | 48.023 |
| December 31, 2019 | 50.635 |

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** | |
|---|---|---|---|---|
| **December 31, 2021** | **Effect on Income before Income Tax** | **Effect on Equity** | **Effect on Income before Income Tax** | **Effect on Equity** |
| Cash and cash equivalents | **(P2,722)** | **(P2,608)** | **P2,722** | **P2,608** |
| Trade and other receivables | **(404)** | **(870)** | **404** | **870** |
| Prepaid expenses and other current assets | **(12)** | **(11)** | **12** | **11** |
| Noncurrent receivables | **-** | **(2)** | **-** | **2** |
| | **(3,138)** | **(3,491)** | **3,138** | **3,491** |
| Loans payable | **30** | **324** | **(30)** | **(324)** |
| Accounts payable and accrued expenses | **1,086** | **1,865** | **(1,086)** | **(1,865)** |
| Long-term debt (including current maturities) | **6,215** | **4,917** | **(6,215)** | **(4,917)** |
| Lease liabilities (including current portion) | **762** | **657** | **(762)** | **(657)** |
| Other noncurrent liabilities | **54** | **48** | **(54)** | **(48)** |
| | **8,147** | **7,811** | **(8,147)** | **(7,811)** |
| | **P5,009** | **P4,320** | **(P5,009)** | **(P4,320)** |

| | P1 Decrease in the US Dollar Exchange Rate | | P1 Increase in the US Dollar Exchange Rate | |
|---|---|---|---|---|
| December 31, 2020 | Effect on Income before Income Tax | Effect on Equity | Effect on Income before Income Tax | Effect on Equity |
| Cash and cash equivalents | (P4,619) | (P3,666) | P4,619 | P3,666 |
| Trade and other receivables | (185) | (457) | 185 | 457 |
| Prepaid expenses and other current assets | (5) | (14) | 5 | 14 |
| Noncurrent receivables | - | (4) | - | 4 |
| | (4,809) | (4,141) | 4,809 | 4,141 |

*Forward*

| | 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 |
| Loans payable | P20 | P160 | (P20) | (P160) |
| Accounts payable and accrued expenses | 757 | 1,308 | (757) | (1,308) |
| Long-term debt (including current maturities) | 5,902 | 4,908 | (5,902) | (4,908) |
| Lease liabilities (including current portion) | 1,095 | 804 | (1,095) | (804) |
| Other noncurrent liabilities | 188 | 184 | (188) | (184) |
| | 7,962 | 7,364 | (7,962) | (7,364) |
| | P3,153 | P3,223 | (P3,153) | (P3,223) |

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, coal, 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, 2021 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | **P300,030** | **P300,030** | **P300,030** | **P -** | **P -** | **P -** |
| Trade and other receivables - net | **161,808** | **161,808** | **161,808** | **-** | **-** | **-** |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **1,529** | **1,529** | **870** | **61** | **598** | **-** |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **298** | **298** | **298** | **-** | **-** | **-** |
| Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **41,982** | **42,016** | **47** | **32** | **-** | **41,937** |
| Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **577** | **586** | **556** | **30** | **-** | **-** |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | **32,310** | **32,902** | **-** | **7,085** | **20,475** | **5,342** |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **12,965** | **12,965** | **10,872** | **629** | **-** | **1,464** |
| **Financial Liabilities** | | | | | | |
| Loans payable | **190,779** | **191,186** | **191,186** | **-** | **-** | **-** |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities) | **191,864** | **191,864** | **191,864** | **-** | **-** | **-** |
| Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts) | **1,992** | **1,992** | **1,247** | **23** | **722** | **-** |
| Long-term debt (including current maturities) | **813,965** | **946,870** | **123,060** | **206,989** | **433,488** | **183,333** |
| Lease liabilities (including current portion) | **94,992** | **120,223** | **27,788** | **23,175** | **36,545** | **32,715** |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | **7,897** | **8,097** | **-** | **3,453** | **3,553** | **1,091** |

| December 31, 2020 | Carrying Amount | Contractual Cash Flow | 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Over 5 Years |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | P347,209 | P347,209 | P347,209 | P - | P - | P - |
| Trade and other receivables - net | 124,369 | 124,369 | 124,369 | - | - | - |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | 635 | 635 | 596 | 20 | 19 | - |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | 275 | 275 | 275 | - | - | - |
| Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | 41,696 | 41,699 | 82 | 46 | 1 | 41,570 |
| Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | 255 | 270 | 112 | 96 | 62 | - |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | 28,095 | 28,119 | - | 333 | 24,237 | 3,549 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | 7,890 | 7,890 | 3,111 | 3,487 | - | 1,292 |
| Financial Liabilities | | | | | | |
| Loans payable | 140,645 | 141,245 | 141,245 | - | - | - |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, deferred income and other current non-financial liabilities) | 149,448 | 149,448 | 149,448 | - | - | - |
| Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts) | 3,898 | 3,898 | 1,731 | 201 | 1,966 | - |
| Long-term debt (including current maturities) | 766,909 | 909,772 | 109,404 | 129,043 | 489,632 | 181,693 |
| Lease liabilities (including current portion) | 117,037 | 145,425 | 31,994 | 27,237 | 49,652 | 36,542 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | 12,884 | 12,890 | - | 1,368 | 10,582 | 940 |

Credit Risk

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

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

*Trade and Other Receivables*

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on the credit risk.

The Group obtains collateral or arranges master netting agreements, where appropriate, so that in the event of default, the Group would have a secured claim.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

*Investment in Debt Instruments*
The Group limits its exposure to credit risk by investing only in liquid debt instruments with counterparties that have high credit ratings. The Group monitors changes in credit risk by tracking published external credit ratings. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in published ratings, the Group supplements this by reviewing changes in bond yields.

*Credit Quality*
In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

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

High grade includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Group's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables and noncurrent receivables and deposits.

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

Financial information on the Group's maximum exposure to credit risk, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

| | ***Note*** | **2021** | 2020 |
|---|---|---|---|
| Cash and cash equivalents (excluding cash on hand) | *7* | **P298,783** | P345,425 |
| Trade and other receivables - net | *8* | **161,808** | 124,369 |
| Derivative assets | *10, 18* | **1,529** | 635 |
| Investment in debt instruments at FVOCI | *10, 12* | **46** | 126 |
| Investment in debt instruments at amortized cost | *10, 12* | **577** | 255 |
| Noncurrent receivables and deposits - net | *18* | **32,310** | 28,095 |
| Restricted cash | *10, 18* | **12,965** | 7,890 |
| | | **P508,018** | P506,795 |

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.

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Financial Assets at Amortized Cost | | | | | |
| | 12-Month ECL | Lifetime ECL not Credit Impaired | Lifetime ECL Credit Impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash and cash equivalents (excluding cash on hand) | **P298,783** | **P -** | **P -** | **P -** | **P -** | **P298,783** |
| Trade and other receivables | **161,808** | **-** | **13,268** | **-** | **-** | **175,076** |
| Derivative assets | **-** | **-** | **-** | **850** | **679** | **1,529** |
| Investment in debt instruments at FVOCI | **-** | **-** | **-** | **-** | **46** | **46** |
| Investment in debt instruments at amortized cost | **547** | **30** | **-** | **-** | **-** | **577** |
| Noncurrent receivables and deposits | **-** | **32,310** | **572** | **-** | **-** | **32,882** |
| Restricted cash | **10,872** | **2,093** | **-** | **-** | **-** | **12,965** |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Financial Assets at Amortized Cost | | | | | |
| | 12-Month ECL | Lifetime ECL not Credit Impaired | Lifetime ECL Credit Impaired | Financial Assets at FVPL | Financial Assets at FVOCI | Total |
| Cash and cash equivalents (excluding cash on hand) | P345,425 | P - | P - | P - | P - | P345,425 |
| Trade and other receivables | 124,369 | - | 13,741 | - | - | 138,110 |
| Derivative assets | - | - | - | 604 | 31 | 635 |
| Investment in debt instruments at FVOCI | - | - | - | - | 126 | 126 |
| Investment in debt instruments at amortized cost | 105 | 150 | - | - | - | 255 |
| Noncurrent receivables and deposits | - | 28,095 | 606 | - | - | 28,701 |
| Restricted cash | 3,111 | 4,779 | - | - | - | 7,890 |

The aging of receivables is as follows:

| **December 31, 2021** | **Trade** | **Non-trade** | **Amounts Owed by Related Parties** | **Total** |
|---|---|---|---|---|
| Current | **P69,571** | **P30,459** | **P14,151** | **P114,181** |
| Past due: | | | | |
| 1 - 30 days | **10,052** | **1,063** | **386** | **11,501** |
| 31 - 60 days | **3,135** | **1,790** | **37** | **4,962** |
| 61 - 90 days | **1,947** | **2,418** | **30** | **4,395** |
| Over 90 days | **14,351** | **24,727** | **959** | **40,037** |
| | **P99,056** | **P60,457** | **P15,563** | **P175,076** |

| December 31, 2020 | Trade | Non-trade | Amounts Owed by Related Parties | Total |
|---|---|---|---|---|
| Current | P45,989 | P23,486 | P13,116 | P82,591 |
| Past due: | | | | |
| 1 - 30 days | 8,894 | 3,608 | 276 | 12,778 |
| 31 - 60 days | 2,736 | 316 | 60 | 3,112 |
| 61 - 90 days | 1,363 | 335 | 11 | 1,709 |
| Over 90 days | 15,680 | 21,226 | 1,014 | 37,920 |
| | P74,662 | P48,971 | P14,477 | P138,110 |

Various collaterals for trade receivables such as bank guarantees, time deposits and real estate mortgages are held by the Group for certain credit limits.

The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality.

The Group computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

The Group's cash and cash equivalents, derivative assets, investment in debt instruments at FVOCI, investment in debt instruments at amortized cost and restricted cash are placed with reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables and noncurrent receivables and deposits is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties.

The Group does not execute any credit guarantee in favor of any counterparty.

Financial and Other Risks Relating to Livestock

The Group is exposed to financial risks arising from the change in cost and supply of feed ingredients and the selling prices of chicken, hogs and cattle and related products, all of which are determined by constantly changing market forces such as supply and demand and other factors. The other factors include environmental regulations, weather conditions and livestock diseases for which the Group has little control. The mitigating factors are listed below:

- The Group is subject to risks affecting the food industry, generally, including risks posed by food spoilage and contamination. Specifically, the fresh meat industry is regulated by environmental, health and food safety organizations and regulatory sanctions. The Group has put into place systems to monitor food safety risks throughout all stages of manufacturing and processing to mitigate these risks. Furthermore, representatives from the government regulatory agencies are present at all times during the processing of dressed chicken, hogs and cattle in all dressing and meat plants and issue certificates accordingly. The authorities, however, may impose additional regulatory requirements that may require significant capital investment at short notice.

- The Group is subject to risks relating to its ability to maintain animal health status considering that it has no control over neighboring livestock farms. Livestock health problems could adversely impact production and consumer confidence. However, the Group monitors the health of its livestock on a daily basis and proper procedures are put in place.

- The livestock industry is exposed to risk associated with the supply and price of raw materials, mainly grain prices. Grain prices fluctuate depending on the harvest results. The shortage in the supply of grain will result in adverse fluctuation in the price of grain and will ultimately increase the Group's production cost. If necessary, the Group enters into forward contracts to secure the supply of raw materials at a reasonable price.

Other Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets at FVPL and FVOCI). The Group manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group, except for BOC which is subject to certain capitalization requirements by the BSP, is not subject to externally imposed capital requirements.

## 40. Financial Assets and Financial Liabilities

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

| | **December 31, 2021** | | December 31, 2020 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | **P300,030** | **P300,030** | P347,209 | P347,209 |
| Trade and other receivables - net | **161,808** | **161,808** | 124,369 | 124,369 |
| Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **1,529** | **1,529** | 635 | 635 |
| Financial assets at FVPL (included under "Prepaid expenses and other current assets" account) | **298** | **298** | 275 | 275 |
| Financial assets at FVOCI (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **41,982** | **41,982** | 41,696 | 41,696 |
| Financial assets at amortized cost (included under "Prepaid expenses and other current assets" and "Investments in equity and debt instruments" accounts) | **577** | **577** | 255 | 255 |
| Noncurrent receivables and deposits - net (included under "Other noncurrent assets - net" account) | **32,310** | **32,310** | 28,095 | 28,095 |
| Restricted cash (included under "Prepaid expenses and other current assets" and "Other noncurrent assets - net" accounts) | **12,965** | **12,965** | 7,890 | 7,890 |
| **Financial Liabilities** | | | | |
| Loans payable | **190,779** | **190,779** | 140,645 | 140,645 |
| Accounts payable and accrued expenses (excluding current retirement liabilities, derivative liabilities, IRO, ARO, deferred income and other current non-financial liabilities) | **191,864** | **191,864** | 149,448 | 149,448 |
| Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts) | **1,992** | **1,992** | 3,898 | 3,898 |
| Long-term debt (including current maturities) | **813,965** | **854,665** | 766,909 | 843,155 |
| Lease liabilities (including current portion) | **94,992** | **94,992** | 117,037 | 117,037 |
| Other noncurrent liabilities (excluding noncurrent retirement liabilities, derivative liabilities, IRO, ARO, MRO, deferred income and other noncurrent non-financial liabilities) | **7,897** | **7,897** | 12,884 | 12,884 |

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

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

*Derivatives.* The fair values of forward exchange contracts are calculated by reference to current forward exchange rates. In the case of freestanding currency and commodity derivatives, the fair values are determined based on quoted prices obtained from their respective active markets. Fair values for stand-alone derivative instruments that are not quoted from an active market and for embedded derivatives are based on valuation models used for similar instruments using both observable and non-observable inputs.

*Financial Assets at FVPL and Financial Assets at FVOCI.* The fair values of publicly traded instruments and similar investments are based on quoted market prices in an active market. For debt instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

*Loans Payable and Accounts Payable and Accrued Expenses.* The carrying amount of loans payable and accounts payable and accrued expenses approximates fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debt, Lease Liabilities and Other Noncurrent Liabilities.* The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.0% to 4.8% and 0.9% to 3% as at December 31, 2021 and 2020, respectively. The discount rates used for foreign currency-denominated loans range from 0.3% to 1.5% and 0.1% to 0.9% as at December 31, 2021 and 2020, 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:

| | Maturity | | | |
|---|---|---|---|---|
| **December 31, 2021** | **1 Year or Less** | **> 1 Year - 2 Years** | **> 2 Years - 5 Years** | **Total** |
| Foreign currency risk: | | | | |
| Call spread swaps: | | | | |
| Notional amount | **US$40** | **US$60** | **US$190** | **US$290** |
| Average strike rate | **P51.96 to P54.47** | **P52.95 to P56.15** | **P48.00 to P53.70** | |
| Foreign currency and interest rate risks: | | | | |
| Cross currency swap: | | | | |
| Notional amount | **US$20** | **US$240** | **US$40** | **US$300** |
| Average strike rate | **P47.00 to P57.00** | **P47.00 to P56.50** | **P47.00 to P56.50** | |
| Fixed interest rate | **4.19% to 5.75%** | **4.19% to 5.80%** | **3.60% to 5.75%** | |
| Interest rate risk: | | | | |
| Interest rate collar: | | | | |
| Notional amount | **US$15** | **US$30** | **US$15** | **US$60** |
| Interest rate | **0.44% to 1.99%** | **0.44% to 1.99%** | **0.44% to 1.99%** | |

| December 31, 2020 | Maturity 1 Year or Less | > 1 Year - 2 Years | > 2 Years - 5 Years | Total |
|---|---|---|---|---|
| Foreign currency risk: | | | | |
| Call spread swaps: | | | | |
| Notional amount | US$90 | US$50 | US$60 | US$200 |
| Average strike rate | P52.41 to P56.15 | P52.41 to P55.02 | P52.95 to P56.15 | |
| Foreign currency and interest rate risks: | | | | |
| Cross currency swap: | | | | |
| Notional amount | US$20 | US$30 | US$280 | US$330 |
| Average strike rate | P47.00 to P57.00 | P47.00 to P56.83 | P47.00 to P56.50 | |
| Fixed interest rate | 4.19% to 5.75% | 4.19% to 5.75% | 3.60% to 5.80% | |
| Interest rate risk: | | | | |
| Interest rate collar: | | | | |
| Notional amount | US$15 | US$30 | US$45 | US$90 |
| Interest rate | 0.44% to 1.99% | 0.44% to 1.99% | 0.44% to 1.99% | |

The following are the amounts relating to hedged items:

| **December 31, 2021** | **Change in Fair Value Used for Measuring Hedge Ineffectiveness** | **Hedging Reserve** | **Cost of Hedging Reserve** |
|---|---|---|---|
| Foreign currency risk: | | | |
| US dollar-denominated borrowings | **(P577)** | **P -** | **(P304)** |
| Foreign currency and interest rate risks: | | | |
| US dollar-denominated borrowings | **(680)** | **(802)** | **576** |
| Interest rate risk: | | | |
| US dollar-denominated borrowings | **4** | **(3)** | **-** |

| December 31, 2020 | Change in Fair Value Used for Measuring Hedge Ineffectiveness | Hedging Reserve | Cost of Hedging Reserve |
|---|---|---|---|
| Foreign currency risk: | | | |
| US dollar-denominated borrowings | P85 | P - | (P87) |
| Foreign currency and interest rate risks: | | | |
| US dollar-denominated borrowings | 1,968 | (1,251) | 657 |
| Interest rate risk: | | | |
| US dollar-denominated borrowings | 28 | (20) | - |

There are no amounts remaining in the hedging reserve from hedging relationships for which hedge accounting is no longer applied.

The following are the amounts related to the designated hedging instruments:

| December 31, 2021 | Notional Amount | Carrying Amount | | Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included | Changes in the Fair Value of the Hedging Instrument Recognized In Other Comprehensive Income | Cost of Hedging Recognized in Other Comprehensive Income | Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income | Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income | Line Item in the Consolidated Statement of Income Affected by the Reclassification |
|---|---|---|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | | | | |
| Foreign currency risk: | | | | | | | | | |
| Call spread swaps | **US$290** | **P635** | **P12** | Prepaid expenses and other current assets, Other noncurrent assets - net, and Accounts payable and accrued expenses | **P577** | **(P497)** | **(P597)** | **P194** | Interest expense and other financing charges and Other income - net |
| Foreign currency and interest rate risks: | | | | | | | | | |
| Cross currency swap | **300** | **42** | **817** | Other noncurrent assets – net, Accounts payable and accrued expenses and Other noncurrent liabilities | **680** | **(340)** | **(476)** | **168** | Interest expense and other financing charges and Other income - net |
| Interest rate risk: | | | | | | | | | |
| Interest rate collar | **60** | **2** | **5** | Other noncurrent assets – net, and Accounts payable and accrued expenses | **(4)** | **(16)** | **-** | **16** | Interest expense and other financing charges |

| December 31, 2020 | Notional Amount | Carrying Amount | | Line Item in the Consolidated Statement of Financial Position where the Hedging Instrument is Included | Changes in the Fair Value of the Hedging Instrument Recognized in Other Comprehensive Income | Cost of Hedging Recognized in Other Comprehensive Income | Amount Reclassified from Hedging Reserve to the Consolidated Statement of Income | Amount Reclassified from Cost of Hedging Reserve to the Consolidated Statement of Income | Line Item in the Consolidated Statement of Income Affected by the Reclassification |
|---|---|---|---|---|---|---|---|---|---|
| | | Assets | Liabilities | | | | | | |
| Foreign currency risk: | | | | | | | | | |
| Call spread swaps | US$200 | P30 | P96 | Prepaid expenses and other current assets, Other noncurrent assets - net, Accounts payable and accrued expenses and Other noncurrent liabilities | (P85) | (P80) | P27 | P214 | Interest expense and other financing charges and Other income - net |
| Foreign currency and interest rate risks: | | | | | | | | | |
| Cross currency swap | 330 | - | 2,343 | Accounts payable and accrued expenses and Other noncurrent liabilities | (1,968) | 24 | 1,257 | 200 | Interest expense and other financing charges and Other income - net |
| Interest rate risk: | | | | | | | | | |
| Interest rate collar | 90 | - | 28 | Accounts payable and accrued expenses and Other noncurrent liabilities | (28) | (8) | - | 9 | Interest expense and other financing charges |

No ineffectiveness was recognized in the 2021 and 2020 consolidated 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.

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Hedging Reserve** | **Cost of Hedging Reserve** | Hedging Reserve | Cost of Hedging Reserve |
| Beginning balance | **(P1,271)** | **P570** | (P1,004) | P321 |
| Changes in fair value: | | | | |
| Foreign currency risk | **597** | **(497)** | (28) | (80) |
| Foreign currency and interest rate risks | **1,195** | **(340)** | (1,603) | 24 |
| Interest rate risk | **24** | **(16)** | (35) | (8) |
| Amount reclassified to profit or loss | **(1,073)** | **378** | 1,284 | 423 |
| Tax effect | **(277)** | **177** | 115 | (110) |
| Ending balance | **(P805)** | **P272** | (P1,271) | P570 |

Derivative Instruments Not Designated as Hedges

The Group enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding and embedded derivatives found in host contracts, which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the consolidated statements of income. Details are as follows:

Freestanding Derivatives

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

*Currency Forwards*

The Group has outstanding foreign currency forward contracts with aggregate notional amount of US$748 and US$440 as at December 31, 2021 and 2020, respectively, and with various maturities in 2021 and 2022. The positive (negative) fair value of these currency forwards amounted to P380 and (P58) as at December 31, 2021 and 2020, respectively.

*Currency Options*

The Group has outstanding currency options with aggregate notional amount of US$400 and US$995 as at December 31, 2021 and 2020, respectively, and with various maturities in 2021 and 2022. The net negative fair value of these currency options amounted to P7 and P645 as at December 31, 2021 and 2020, respectively.

*Commodity Swaps*

The Group has outstanding swap agreements covering its fuel oil, coal and aluminum requirements, with various maturities in 2022 and 2023. Under the agreements, payment is made either by the Group or its counterparty for the difference between the hedged fixed price and the relevant price index.

The outstanding notional quantity of fuel oil were 24.6 million barrels and 32.8 million barrels as at December 31, 2021 and 2020, respectively. The net negative fair value of these swaps amounted to P533 and P724 as at December 31, 2021 and 2020, respectively.

The outstanding notional quantity of coal was 96,000 metric tons as at December 31, 2021. The positive fair value of these swaps amounted to P62 as at December 31, 2021. The Group has no outstanding commodity swaps on the purchase of coal as at December 31, 2020.

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$260 and US$173 as at December 31, 2021 and 2020, respectively. These non-financial contracts consist mainly of foreign currency-denominated purchase orders, sales agreements and capital expenditures.

The embedded forwards are not clearly and closely related to their respective host contracts. The net positive (negative) fair value of these embedded currency forwards amounted to (P209) and P601 as at December 31, 2021 and 2020, respectively.

The Group recognized marked-to-market losses from freestanding and embedded derivatives amounting to P9,427, P5,007 and P3,308 in 2021, 2020 and 2019, respectively (Note 32).

Fair Value Changes on Derivatives
The net movements in fair value of all derivative instruments are as follows:

| | **2021** | 2020 |
|---|---|---|
| Balance at beginning of year | **(P3,263)** | (P1,964) |
| Net change in fair value of derivatives: | | |
| Designated as accounting hedge | **1,492** | (1,730) |
| Not designated as accounting hedge | **(9,366)** | (4,841) |
| Acquisition of a subsidiary | **-** | 8 |
| | **(11,137)** | (8,527) |
| Less fair value of settled instruments | **(10,674)** | (5,264) |
| Balance at end of year | **(P463)** | (P3,263) |

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, 2021** | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | Level 1 | Level 2 | Total |
| **Financial Assets** | | | | | | |
| Derivative assets | **P -** | **P1,529** | **P1,529** | P - | P635 | P635 |
| Financial assets at FVPL | **-** | **298** | **298** | - | 275 | 275 |
| Financial assets at FVOCI | **777** | **41,205** | **41,982** | 784 | 40,912 | 41,696 |
| **Financial Liabilities** | | | | | | |
| Derivative liabilities | **-** | **1,992** | **1,992** | - | 3,898 | 3,898 |

The Group has no financial instruments valued based on Level 3 as at December 31, 2021 and 2020. In 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

## 41. Events After the Reporting Date

Parent Company

*a. Payment of P6,683 Series A Fixed Rate Peso-Denominated Bonds*

On March 1, 2022, the Parent Company paid the P6,683 Series A fixed rate Peso-denominated bonds.

*b. Shelf-registration of P60,000 Fixed Rate Peso-Denominated Bonds and Issuance of P30,000 Bonds*

On March 4, 2022, the Parent Company issued and listed with the PDEx a total of P30,000 Peso-denominated fixed rate bonds from the P60,000 shelf registration of fixed rate bonds filed with the SEC on December 7, 2021.

The bonds comprised of P17,440 Series J Bonds and P12,560 Series K Bonds, with interest rates of 5.2704% and 5.8434% per annum, due in 2027 and 2029, respectively.

The proceeds from the issuance of the bonds will be used to settle the short-term loan facility availed for the redemption of Subseries "2-C" and Subseries "2-E" Preferred Shares on September 21, 2021.

## 42. Registration with the Board of Investments (BOI) and Others

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 NGCP. 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's request on the further extension of the ITH reckoning date from July 2016 to September 2017 was likewise approved by the BOI on December 5, 2018. The ITH period for Unit 1 and Unit 2 of SCPC commenced on May 26, 2017. The ITH incentives shall only be limited to the conditions given under the specific terms and conditions of their respective BOI registrations.

- On September 20, 2016, LETI was registered with the BOI under EO No. 226 as expanding operator of 2 x 150 MW Circulating Fluidized Bed 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 and expired in 2021.

  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. Accordingly, applications for deregistration have been filed by SMEC, SPDC and SPPC and the same were approved by the BOI on its letter dated February 22, 2022.

- 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 600MW 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 600MW to 300MW.

  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 10MW BESS of MPPCL commenced on December 1, 2018. On October 1, 2020, MPPCL likewise received the BOI approval on the additional 20MW BESS Phase 2 Project of MPPCL.

  On February 23, 2021, MPPCL received the BOI approval for the applications as new operator of 315MW Super Critical Pulverized Coal Thermal Power Plant Unit 4, and as new operator of 315MW Super Critical Pulverized Coal Thermal Power Plant Unit 5. Each registered activity is entitled to a four-year ITH reckoned from the start of commercial operations in September 2024 and November 2024, respectively.

- On August 24, 2016, SPESC received the BOI approval for the application as new operator of 2 x 20MW Kabankalan *Advancion* Energy Storage Array on a pioneer status. SPESC, 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, SPESC filed a request with the BOI to move the reckoning date of the ITH entitlement from July 2019 to July 2021. Due to the delays brought about by the pandemic, a subsequent request was filed to move the reckoning date to January 2022. On December 17, 2021, the BOI granted the request of SPESC Storage for the movement of Start of Commercial Operations and ITH reckoning to January 2022. The incentives shall be limited to the specific terms and conditions of SPESC's BOI registration.

- On November 29, 2019, the BOI has approved the application of UPSI as new operator of BESS Component of Integrated Renewable Power Facility (R-Hub) covering various sites across the Philippines. The BOI has also approved UPSI's subsequent applications covering additional sites. Each registered site was granted with certain incentives including ITH, among others.

- On February 23, 2021, EERI received the BOI approval for the applications as new operator of 850 MW Batangas Combined Cycle Power Plant Phase 1, and 850 MW Batangas Combined Cycle Power Plant Phase 2 located in Brgy. Dela Paz Proper, Batangas City, Batangas. Each registered activity is entitled to a four-year ITH reckoned from the start of commercial operation in April 2023 and October 2026, respectively.

Registration with the Authority of the Freeport Area of Bataan (AFAB)
On April 24, 2019, MPGC was registered with the AFAB, subject to annual renewal, as engaged in business of producing and generating electricity, and processing fuels alternative for power generation, among others, at the Freeport Area of Bataan (FAB). As a FAB enterprise, MPGC will operate a 4 x 150 MW power plant located in Mariveles, Bataan. FAB granted MPGC certain incentives that include, among others, an ITH for four years for original project effective on the committed date or actual date of start of commercial operations, whichever is earlier. On December 13, 2021, MPGC has been granted a renewed certificate of registration with AFAB valid until December 31, 2022.

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 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. On August 18, 2021, the ERC has granted the extension of the validity of the RES License for 15 days from August 21, 2021 until September 5, 2021 to allow SMELC to complete the transfer of its remaining contestable customer to SCPC.

On September 30, 2021, the ERC has extended the validity of SCPC's and MPPCL's RES License for six months or until March 29, 2022, pending final evaluation of its RES license renewal application.

b. SMFB

SMFI
SMFI is registered with the BOI and AFAB for certain feedmill, poultry, meats and ready-to-eat meals projects. In accordance with the provisions of EO No. 226 and the RA No. 9728, also known as "The Freeport Area of Bataan Act of 2009", the projects are entitled, among others, to fiscal incentives described as follows:

- *New Producer of Hogs.* SMFI's (formerly Monterey Foods Corporation) Sumilao Hog Project (Sumilao Hog Project) was registered with the BOI on a pioneer status on July 30, 2008 under Certificate of 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 in 2016, 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.

  On February 11, 2021, SMFI requested for the cancellation of its Certificate of Registration No. 2008-192. On July 21, 2021, by virtue of Resolution No. 27-02, series of 2021, the Management Committee of the BOI noted the action taken by the Executive Director in approving the request for cancellation and removal of said registration from the BOI's Book of Registry.

- *New Producer of Animal Feeds (Pellet, Crumble and Mash).* The San Ildefonso, Bulacan feedmill project (Bulacan Feedmill Project) was registered with the BOI on a non-pioneer status on April 14, 2016 under Certificate of 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 with the BOI on a non-pioneer status on April 14, 2016 under Certificate of 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, the BOI approved SMFI's request to move the 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 with the BOI on a non-pioneer status on November 10, 2015 under Certificate of 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, the BOI approved SMFI's request to move the Cebu Feedmill Project's start of commercial operations and ITH reckoning date to December 2019.

- SMFI's Bataan feedmill project (Bataan Feedmill Project) was registered with the AFAB as a *Manufacturer of Feeds for Poultry, Livestock and Marine Species* on January 6, 2017 under Certificate of Registration No. 2017-057, valid for a period of one year, renewable annually subject to qualifications as determined by AFAB.

  Said AFAB registration of the Bataan Feedmill Project has been renewed accordingly as follows:

| Registration Renewal Date | Certificate of Registration No. | Annual Period Covered |
|---|---|---|
| March 6, 2018 | 2018-096 | 2018 |
| February 14, 2019 | 2019-079 | 2019 |
| December 10, 2019 | 2020-047 | 2020 |
| December 29, 2020 | 2021-081 | 2021 |

  Under the terms of SMFI's AFAB registration, the 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.

- *New Producer of Ready-to-Eat Meals.* The Sta. Rosa, Laguna Food Service project (Ready-to-Eat Project) was registered with the BOI on a non-pioneer status on December 13, 2017 under Certificate of 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.

  On March 19, 2021, SMFI requested for the cancellation of its Certificate of Registration No. 2017-335. On May 19, 2021, by virtue of Resolution No. 19-07, series of 2021, the Management Committee of the BOI noted the cancellation of said registration undertaken by the Executive Director and the deletion of the registration from the BOI's Book of Registry.

- *New Domestic Producer of Animal Feeds (in Pellet, Crumble and Mash).* The Phividec, Tagoloan, Misamis Oriental feedmill project (CDO Feedmill Project) was registered with the BOI on a non-pioneer status on May 27, 2020 under Certificate of Registration No. 2020-075. The CDO Feedmill Project is entitled to ITH for four years from June 2020 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration, extendable under certain conditions, but in no case should the aggregate ITH period exceed eight years. ITH period of the project commenced on June 1, 2020.

PF-Hormel

PF-Hormel was registered with the BOI under Registration No. 2017-033 on a non-pioneer status as an Expanding Producer of Processed Meat (Hotdog) for its project in General Trias, Cavite on January 31, 2017.

Under the terms of PF-Hormel's BOI registration and subject to certain requirements as provided in EO No. 226, PF-Hormel is entitled to incentives which include, among others, ITH for three years from December 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH period of the project commenced on December 1, 2017 until November 2020.

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-Products (Bran and Pollard) for its flour mill expansion project in Mabini, Batangas on February 16, 2016.

Under the terms of SMMI's BOI registration and subject to certain requirements as provided in EO No. 226, SMMI is entitled to incentives which include, among others, ITH for three years from July 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

On October 25, 2017, the BOI approved SMMI's request to adjust the ITH reckoning date to December 2018 or actual start of commercial operations, whichever is earlier.

On July 25, 2019, the BOI approved SMMI's subsequent request to further adjust the ITH reckoning date to July 2019 or actual start of commercial operations, whichever is earlier. The ITH period of the project commenced on December 1, 2019.

On August 7, 2020, by virtue of Resolution No. 15-19, Series of 2020, the BOI approved SMMI's request for amendment of ITH Base Figure from peso sales value of 9,582,065,157 to sales volume of 388,447 metric tons.

c. Petron

Refinery Master Plan 2 (RMP-2) Project
On June 3, 2011, the BOI approved Petron's application under the Downstream Oil Industry Deregulation Act (RA No. 8479) as an Existing Industry Participant with New Investment in Modernization/Conversion of Bataan Refinery's RMP-2. The BOI is extending the following major incentives:

i. ITH for five years without extension or bonus year from July 2015 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration based on the formula of the ITH rate of exemption.

ii. Minimum duty of three percent and VAT on imported capital equipment and accompanying spare parts.

iii. Importation of consigned equipment for a period of five years from date of registration subject to posting of the appropriate re-export bond; provided that such consigned equipment shall be for the exclusive use of the registered activity.

iv. Tax credit on domestic capital equipment shall be granted on locally fabricated capital equipment which is equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

v. Exemption from real property tax on production equipment or machinery.

vi. Exemption from contractor's tax.

The RMP-2 Project commenced its commercial operations on January 1, 2016.

On August 19, 2019, the BOI approved Petron's application for the ITH incentive.

Petron did not avail of the ITH in 2020 and 2019. The RMP-2 entitlement period ended in June 2020.

Bataan Refinery
In December 2020, Bataan Refinery was granted approval as a registered enterprise by the AFAB. FAB-registered enterprises are entitled to avail of fiscal incentives under Special Economic Zone Act of 1995 or Omnibus Investment Code of 1987. On December 29, 2021, Petron's Certificate of Registration was renewed.

d. Packaging

SMYPC
On December 7, 2018, the BOI issued the certificate of registration to SMYPC's Plastic Caps Plant in Laguna as an expanding producer of injection plastic caps on a non-pioneer status under EO No. 226. The registration entitles SMYPC to certain tax and other incentives including but not limited to a three-year ITH starting June 1, 2019 when it started its commercial operations and will expire on May 31, 2022.

On June 19, 2019, the BOI issued the certificate of registration to SMYPC's Plastics Plant in Cebu as a new producer of plastic products such as but not limited to crates and poultry flooring on a non-pioneer status. The registration entitles SMYPC to a four-year ITH starting July 1, 2019 when it started its commercial operations and will expire on June 30, 2023.

On June 26, 2019, the BOI issued the certificate of registration to SMYPC's Plastics Plant in Manila as a modernization project of plastic pallets production on a non-pioneer status. The registration entitles SMYPC to a three-year ITH starting July 1, 2019 when it started its commercial operations and will expire on June 30, 2022.

In addition to the ITH, SMYPC is entitled to the following benefits:

i. Importation of capital equipment, spare parts and accessories at zero duty from the date of effectivity of EO No. 85 and its Implementing Rules and Regulations for a period of three years from the effectivity of the EO or on July 25, 2019 and until July 24, 2022.

ii. Exemption from taxes and duties on imported spare parts and consumable supplies for export producers with Custom Bonded Manufacturing Warehouse (CBMW) exporting at least 70% of production.

iii. Tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten years from start of commercial operations.

iv. Additional deduction for labor expense for a period of five years from registration an amount equivalent to 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year, if the project meets the prescribed ratio of capital equipment to the number of workers set by the Board. This may be availed of for the first five years from the date of registration but not simultaneously with ITH.

v. Importation of consigned equipment for a period of ten years from the date of registration, subject to posting of re-export bond.

vi. Employment of foreign nationals.

vii. Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.

viii. Exemption from wharfage dues, and any export tax, duty, impost and fee for a period of ten years from the date of registration.

ix. Access to CBMW subject to the Customs rules and regulations.

As a result of the merger, the BOI certificate of registration for SMYAC's Glass Expansion Project under EO No. 226 was transferred to SMYPC. The registration entitles SMYPC to certain tax and other incentives including but not limited to ITH incentive starting March 1, 2019 and will expire on February 28, 2022.

SYFMC
On December 3, 2019, the BOI issued the certificate of registration to SYFMC's project as a new producer of molds for glass on a pioneer status under EO No. 226. The registration entitles SYFMC to certain tax and other incentives.

The ITH incentive is for a period of six years starting May 1, 2020 when it started its commercial operations.

The income qualified for ITH shall be limited to the income directly attributable to the eligible revenue granted from the registered project.

e. SMCSLC

SMCSLC
SMCSLC is registered with the BOI under the Omnibus Investments Code of 1987 for the operation of domestic cargo vessels and motor tankers, where SMCSLC is entitled to the following incentives:

i. *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.

ii. *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.

iii. *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 as discussed in the foregoing may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

SLHBTC
In 2015, SLHBTC registered its own fuel storage facilities at Limay, Bataan under Registration No. 2015-027. In 2016, its newly built oil terminal located at Tagoloan, Cagayan de Oro was also registered with the BOI under Registration No. 2016-145. With the registration, SLHBTC is entitled to the following incentives under the RA No. 8479 from date of registration or date of actual start of commercial operations, whichever is earlier, and upon fulfillment of the terms enumerated below:

i. *ITH*

SLHBTC is entitled to ITH for five years without extension from date of registration or actual start of operations, whichever is earlier, but in no case earlier than the date of registration.

Only income directly attributable to the revenue generated from the registered project [Storage and Bulk Marketing of 172,000,000 liters (Tagoloan) or 35,000,000 liters (Limay) of petroleum products covered by Import Entry Declaration or sourced locally from new industry participants] pertaining to the capacity of the registered storage terminal shall be qualified for the ITH.

ii. *Additional Deduction from Taxable Income*. SLHBTC shall be allowed an additional deduction from taxable income of 50% of the wages corresponding to the increment in number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by the BOI and provided that this incentive shall not be availed of simultaneously with the ITH.

iii. *Minimum Duty of 3% and VAT on Imported Capital Equipment*. Importation of brand new capital equipment, machinery and accompanying spare parts, shall be entitled to this incentive subject to the following conditions:

- they are not manufactured domestically in sufficient quantity of comparable quality and at reasonable prices;
- the equipment is reasonably needed and will be exclusively used in the registered activity; and
- prior BOI approval is obtained for the importation as endorsed by the DOE.

iv. *Tax Credit on Domestic Capital Equipment.* This shall be granted on locally fabricated capital equipment equivalent to the difference between the tariff rate and the three percent duty imposed on the imported counterpart.

v. *Importation of Consigned Equipment.* SLHBTC is entitled for importation of consigned equipment for a period of five years from the date of registration subject to posting of the appropriate bond, provided that such consigned equipment shall be for the exclusive use of the registered activity.

vi. *Exemption from Taxes and Duties on Imported Spare Parts for Consigned Equipment with Bonded Manufacturing Warehouse.* SLHBTC is entitled to this exemption upon compliance with the following requirements:

- at least 70% of production is imported;
- such spare parts and supplies are not locally available at reasonable prices, sufficient quantity and comparable quality; and
- all such spare and supplies shall be used only on bonded manufacturing warehouse on the registered enterprise under such requirements as the Bureau of Customs may impose.

vii. *Exemption from Real Property Tax on Production Equipment or Machinery.* Equipment and machineries shall refer to those reasonably needed in the operations of the registered enterprise and will be used exclusively in its registered activity. BOI Certification to the appropriate Local Government Unit will be issued stating therein the fact of the applicant's registration with the BOI.

viii. *Exemption from the Contractor's Tax.* BOI certification to the BIR will be issued stating therein the fact of the applicant's registration with the BOI.

ix. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from date of registration. The President, General Manager and Treasurer of foreign-owned registered enterprise or their equivalent shall not be subject to the foregoing limitations.

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operation and/or date of registration.

<u>Molave Tanker Corporation (MTC)</u>
MTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Apitong, 2,993 GT).* The project was registered on January 11, 2017, where MTC is entitled to ITH for four years from January 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.
- *New Domestic Shipping Operator (Oil Tanker Vessel - MTC Guijo - 2,993 GT).* The project was registered on May 24, 2017, where MTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, MTC is entitled to importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, MTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional Deduction for Labor Expense*. For the first five years from registration, MTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

Balyena Tanker Corporation (BTC)
BTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (LPG Carrier/Tanker Vessel - BTC Balyena, 3,404 GT)*. The project was registered on December 14, 2016, where BTC is entitled to ITH for four years from December 2016 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (One (1) Cargo Vessel - BTC Mt. Samat, 1,685 GT)*. The project was registered on July 30, 2018, where BTC is entitled to ITH for four years from July 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Cargo Vessel BTC Harina, 872 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Deck Cargo Vessel - BTC Mount Makiling, 1,685 GT)*. The project was registered on November 9, 2018, where BTC is entitled to ITH for four years from November 2018 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Cargo Vessel - BTC Soya, 2,426 GT)*. The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from July 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator* (*Cargo Vessel - BTC Cassava, 2,426 GT*). The project was registered on July 19, 2019, where BTC is entitled to ITH for four years from July 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, BTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, BTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense*. For the first five years from registration, BTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

vii. *Exemption from wharfage dues and any export tax, duty, impost and fees for a period of ten years from date of registration.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

Narra Tanker Corporation (NTC)
NTC is registered with the BOI under EO No. 226 for the operation of domestic cargo vessels and motor tankers with the following incentives:

i. *ITH*

- *New Domestic Shipping Operator (Oil Tanker Vessel - NTC Agila, 1-2,112 GT)*. The project was registered on May 24, 2017, where NTC is entitled to ITH for four years from May 2017 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentives shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Haribon, 2,467 GT)*. The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Falcon, 2,467 GT)*. The project was registered on May 15, 2019, where NTC is entitled to ITH for four years from September 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Heron, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

- *New Domestic Shipping Operator (Oil Tanker Vessel/Barge Ship - NTC Flamingo, 2,219 GT)*. The project was registered on October 3, 2019, where NTC is entitled to ITH for four years from October 2019 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The 100% ITH incentive shall be limited only to the revenue generated by the registered project.

ii. *Employment of Foreign Nationals*. This may be allowed in supervisory, technical or advisory positions for five years from the date of registration of the project as indicated above. The President, General Manager and Treasurer of foreign-owned registered firms or their equivalent shall not be subjected to the foregoing limitations.

iii. *Importation of Consigned Equipment*. For the operation of cargo vessels, NTC is entitled for importation of consigned equipment for a period of ten years from the date of registration, subject to the posting of re-export bond.

iv. *Importation of Capital Equipment, Spare Parts and Accessories*. For the operation of motor tankers, NTC may import capital equipment, spare parts and accessories at zero percent duty from the date of registration of the project as indicated above, pursuant to EO No. 528 and its implementing rules and regulations.

v. *Additional deduction for labor expense*. For the first five years from registration, NTC shall be allowed an additional deduction from taxable income equivalent to 50% of the wages of additional skilled and unskilled workers in the direct labor force. The incentive shall be granted only if the enterprise meets a prescribed capital to labor ratio and shall not be availed simultaneously with the ITH.

vi. *Simplification of Customs procedures for the importation of equipment, spare parts, raw materials and supplies.*

The incentives with no specific number of years of entitlement above may be enjoyed for a maximum period of ten years from the start of commercial operations and/or date of registration.

f. Cement

NCC
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.

As a result of the merger of NCC and SMNCI, the BOI registration for SMNCI's Lines A and B Cement Plant and Grinding Facility was transferred to NCC per BOI Management Committee Resolution No.38-07, Series of 2021.

NCC's cement lines A and B has not started its commercial operations as at December 31, 2021. Thus, NCC has not availed yet of any tax incentives.

Ionic Cementworks Industries Inc. (ICII)

- *New Producer of Cement (Barangay Ilayang Palsabangon, Pagbilao, Quezon).* ICII was registered with the BOI on a non-pioneer status on April 17, 2018 under Certificate of Registration No. 2018-086. ICII's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

  i. ITH

     a) ITH for four years from May 2021 or actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

     b) Application for Bonus years, provided that the aggregate availment shall not exceed eight years.

  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 for a period of five years 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. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.

  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 fee for a period of ten years from date of registration.

- *New Producer of Cement (Malicboy Cement Plant Project, Barangay Kanlurang Malicboy, Pagbilao, Quezon).* ICII was registered with the BOI on a non-pioneer status under Certificate of Registration No. 2021-095 on May 21, 2021. ICII's registration with the BOI entitles it to the following fiscal and non-fiscal incentives available to its registered project, among others:

  i. ITH

     a) ITH for four years from January 2026 or actual start of commercial operations of Line 1, whichever is earlier, but in no case earlier than the date of registration.

     b) Application for Bonus years, provided that the aggregate availment shall not exceed eight years.

  ii. Importation of capital equipment, spare parts and accessories at zero duty under EO No. 85 and its Implementing Rules and Regulation.

iii. Additional deduction from taxable income for a period of five years 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. Employment of foreign nationals which may be allowed in supervisory, technical or advisory positions for five years from date of registration.

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 fee for a period of ten years from date of registration.

ICII has not started commercial operations as at December 31, 2021. Thus, ICII has not availed yet of any tax incentives.

## 43. Other Matters

*a. Contingencies*

The Group is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements of the Group.

- Deficiency Excise Tax/Excess Excise Tax Payments

  Filed by the Parent Company

  In 2004, the Parent Company was assessed of excise taxes by the BIR on "San Mig Light" which at that time was one of its products. These assessments were contested by the Parent Company but nonetheless made the corresponding payments. Consequently, the Parent Company filed three (3) claims for refund for overpayments of excise taxes with the BIR which were then elevated to the Court of Tax Appeals (CTA) by way of petition for review. The details of the such claims for refunds are as follows:

  (a) first claim for refund of overpayments for the period from February 2, 2004 to November 30, 2005 was filed on January 31, 2005 with the CTA First Division docketed as CTA Case No. 7405;

  (b) second claim for refund of overpayments for the period of December 31, 2005 to July 31, 2007 was filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7708; and

  (c) third claim for refund of overpayments for the period of August 1, 2007 to September 30, 2007 filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7953.

  In the meantime, effective October 1, 2007, the Parent Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

  *On the First Claim for Refund.* On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Parent Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period

from February 1, 2004 to November 30, 2005. After unsuccessfully having the decision reconsidered, the BIR represented by the Office of the Solicitor General elevated the cases to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.

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

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

On September 8, 2020, the BIR issued TCC Nos. 121-20-00012 and 121-20-00013 amounting to P782 and P926, respectively, in favor of the Parent Company. P62 out of the P782 TCC was partially applied to the Parent Company's 2021 tax obligations. As at December 31, 2021, the P926 TCC was not yet applied to any of the Parent Company's tax obligations.

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

On August 10, 2020, the BIR issued TCC No. 121-20-00010 amounting to P105 in favor of the Parent Company. P61 and P44 was applied to the Parent Company's tax obligations in 2021 and 2020, respectively.

Filed by SMB

SMB filed 13 claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review on the following dates:

(a) first claim for refund of overpayments for the period from October 1, 2007 to December 31, 2008 - Second Division docketed as CTA Case No. 7973 (September 28, 2009);

(b) second claim for refund of overpayments for the period of January 1, 2009 to December 31, 2009 - First Division docketed as CTA Case No. 8209 (December 28, 2010);

(c) third claim for refund of overpayments for the period of January 1, 2010 to December 31, 2010 - Third Division docketed as CTA Case No. 8400 (December 23, 2011);

(d) fourth claim for refund of overpayments for the period of January 1, 2011 to December 31, 2011 - Second Division docketed as CTA Case No. 8591 (December 21, 2012);

(e) fifth claim for refund of overpayments for the period of January 1, 2012 to December 31, 2012 - Second Division docketed as CTA Case No. 8748 (December 19, 2013);

(f) sixth claim for refund of overpayments for the period of January 1, 2013 to December 31, 2013 - Third Division docketed as CTA Case No. 8955 (December 19, 2014);

(g) seventh claim for refund of overpayments for the period of January 1, 2014 to December 31, 2014 - Third Division docketed as CTA Case No. 9223 (December 22, 2015);

(h) eighth claim for refund of overpayments for the period of January 1, 2015 to December 31, 2015 - Second Division docketed as CTA Case No. 9513 (December 28, 2016);

(i) ninth claim for refund of overpayments for the period from January 1, 2016 to December 31, 2016 - First Division docketed as CTA Case No. 9743 (December 29, 2017);

(j) tenth claim for refund of overpayments for the period from January 1, 2017 to December 31, 2017 - Third Division docketed as CTA Case No. 10000 (December 27, 2018);

(k) eleventh claim for refund of overpayments for the period from January 1, 2018 to December 31, 2018 - First Division docketed as CTA Case No. 10223 (December 11, 2019);

(l) twelfth claim for refund of overpayments for the period of January 1, 2019 to December 31, 2019 - Third Division docketed as CTA Case No. 10421 (December 16, 2020); and

(m) thirteenth claim for refund for overpayments for the period of January 23, 2020 to February 9, 2020 - docketed as CTA Case No. 10745 (via electronic mail on January 21, 2022, registered mail on January 24, 2022, and personal filing on February 2, 2022).

CTA Case No. 7973 was consolidated with CTA Case No. 7953. For CTA Case No. 7973, the CTA Third Division decided in favor of SMC and SMB and ordered the BIR to refund SMB the amount of P829 and the amount of P105 to SMC. The BIR appealed to the CTA *En Banc* which affirmed the decision of the Third Division. The BIR then elevated the case to the Supreme Court but its petition was denied by the Supreme Court through its September 11, 2017 and December 11, 2017 Resolutions (docketed as GR No. 232404). With the decision in favor of SMC and SMB, both companies, through counsel, on January 23, 2019, moved for the execution of the decision as the records of the case were returned to the CTA. The Writ of Execution was issued on March 18, 2019 by the CTA Special Second Division in the amount of P829. SMB filed an application for the issuance of a TCC with the BIR.

The Integrated Tax System (ITS) TCC Trans No. 121-20-00009 was issued by the BIR in favor of SMB on August 10, 2020 in the amount of P829 (Note 32). P809 out of P829 was partially applied to SMB's 2020 tax obligations. The remaining P20 was applied in 2021.

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 elevated within the prescribed period, thus, the decision became final and executory. The BIR filed a Petition for Relief from Judgment which was denied by the CTA. Separately, the First Division granted SMB's Motion for Execution for the refund of P731, while the BIR filed a Petition for Certiorari before the Supreme Court (docketed as G.R. No. 221790). The Petition for Certiorari was dismissed by the Supreme Court with finality but the BIR still filed an Urgent Motion for Clarification. Subsequently, SMB 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 and expunged from the records all pleadings of the BIR filed after its denial of BIR's Petition for Certiorari had become final and executory. SMB filed an application for the issuance of a TCC in the amount of P731. On November 6, 2019, the BIR issued ITS TCC Trans No. 121-19-00010 in favor of SMB which was fully utilized against SMB's tax obligations in 2020 (Note 32).

CTA Case No. 8400 was decided in favor of SMB by both the CTA Third Division and the CTA *En Banc*. The BIR was ordered to refund to SMB the amount of P699. The BIR elevated the case to the Supreme Court but the Supreme Court denied the BIR's petition through its March 20, 2017 Resolution. The BIR moved for reconsideration but the same was similarly denied by the Supreme Court through its July 24, 2017 Resolution. With the decision in favor of SMB, SMB moved for the execution of the decision on January 23, 2019 as the records of the case were already returned to the CTA. On May 30, 2019, CTA Special Third Division issued a Writ of Execution in the amount of P699 in favor of SMB. SMB filed an application for TCC issuance. The BIR issued ITS TCC Trans No. 121-19-00009 in favor of SMB on November 13, 2019 (Note 32) which was fully utilized against SMB's tax obligations in 2020.

CTA Case No. 8591 was decided in favor of SMB by the CTA Second Division and CTA *En Banc*. The BIR was ordered to refund to SMB the amount of P740. The BIR elevated the case to the Supreme Court by

way of petition for review (docketed as G.R. No. 232776), where it was denied on February 21, 2018. The BIR filed a Motion for Reconsideration, which was denied with finality on July 23, 2018. SMB filed a motion for the execution of the decision with the CTA Second Division. The CTA Second Division issued a Writ of Execution in the amount of P740 on November 13, 2019. SMB filed an application for TCC with the BIR in January 2020 which was issued on August 10, 2020. The said ITS TCC Trans No. 121-20-00008 with an amount of P740 (Note 32) has been fully utilized against SMB's tax obligations in 2020.

CTA Case No. 8748 was decided in favor of SMB by the CTA Second Division, ordering the BIR to refund to SMB the amount of P761. The BIR appealed the decision to the CTA *En Banc* by way of a Petition for Review, which was denied on October 11, 2018. A Motion for Reconsideration was filed by the BIR on November 5, 2018 (docketed as CTA EB Case No. 1730) to which SMB filed an opposition. The CTA *En Banc* denied BIR's Motion for Reconsideration. Thus, the BIR filed a Petition for Review with the Supreme Court in June 2019. The Supreme Court issued a Resolution dated January 27, 2021 denying the BIR's Petition for Review for failure to show any reversible error warranting the exercise by the Supreme Court of its discretionary appellate jurisdiction. SMB is awaiting the issuance of the corresponding Entry of Judgment.

CTA Case No. 8955, SMB's claim for refund for P83, was decided against SMB by the CTA Third Division for having purportedly availed of the wrong mode of appeal as SMB should have filed the petition with the RTC rather than through a collateral attack on issuances of the BIR via a judicial claim for refund. 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. With the denial of SMB's Motion for Reconsideration on January 5, 2018, SMB elevated the case to the CTA *En Banc* by way of a Petition for Review. On September 19, 2018, the CTA *En Banc* reversed and set aside the decision of the CTA Third Division and remanded the case to the CTA Third Division for the resolution of the same on the merits (docketed as CTA EB Case No. 1772). A Motion for Reconsideration was filed by the BIR which was subsequently denied by the CTA *En Banc* in a resolution dated January 24, 2019. The BIR sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 244738. After the BIR filed a Manifestation stating that it will no longer file a Petition for Review on Certiorari, the Supreme Court issued a Resolution dated January 8, 2020 considering the case closed and terminated. The records have been remanded and the case is now pending with the CTA Third Division.

CTA Case No. 9223, SMB's claim for refund for P60, was partially decided in favor of SMB by the CTA Third Division. From the CTA Third Division, SMB and the BIR filed separate Petitions for Review with the CTA *En Banc*. On February 21, 2022, the CTA *En Banc* rendered a Decision denying the separate Petitions for Review. On March 1, 2022, SMB sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 258812.

CTA Case No. 9513, SMB's claim for refund for P48, was partially decided in favor of SMB by the CTA Second Division. From the CTA Second Division, SMB and the BIR filed separate Petitions for Review with the CTA *En Banc*. On February 4, 2021, the CTA *En Banc* affirmed the decision of CTA Second Division. Both parties filed motions for partial reconsideration of the CTA *En Banc*'s Decision. In its October 22, 2021 Resolution, the CTA *En Banc* denied the parties' motion for reconsideration. On December 16, 2021, SMB filed a Petition for Review on Certiorari with the Supreme Court docketed as G.R. No. 257784.

CTA Case No. 9743, SMB's claim for refund for P30, was partially decided in favor of SMB by the CTA First Division. The Motion for Partial New Trial of SMB and Motion for Reconsideration filed by SMB and the BIR were denied. Both parties filed their respective Petition for Review with the CTA *En Banc*. On February 10, 2022, the CTA *En Banc* rendered a Decision denying the Petitions for Review. On March 1, 2022, SMB sought an extension within which to file a Petition for Review with the Supreme Court which was docketed as G.R. No. 258813.

CTA Case No. 10000, SMB's claim for refund for P123, was filed on December 27, 2018 and is pending with the CTA Third Division. On September 22, 2021, the CTA Third Division partially granted SMB's Petition for Review and ordered the refund of P123. The BIR filed for a motion for reconsideration.

CTA Case No. 10223, SMB's claim for refund for P147, was filed on December 11, 2019 and is pending with the CTA First Division.

CTA Case No.10421, SMB's claim for refund for P162, was filed on December 16, 2020. SMB filed a Motion to Withdraw the Petition for Review as the BIR issued a TCC in the amount of P162 (Note 32). In its November 29, 2021 Resolution, the CTA granted SMB's Motion to Withdraw the Petition and deemed the Petition as withdrawn and the case closed and terminated. P80 was applied to SMB's tax obligations in 2021.

CTA Case No. 10745, SMB's claim for refund for P1,069, was personally filed on February 2, 2022. The case is yet to be raffled to a Division of the CTA. The case is a consolidation of two claims, to wit:

i. P8 under RA No. 10351 – the overpayment arose from the BIR's imposition of excise tax of P27.07 per liter on SMB's beer products for the period January 23, 2020 to February 9, 2020 based on Revenue Memorandum Circular (RMC) No. 90-2012 and RR No. 17-2012. Said BIR issuances are inconsistent with RA No. 10351 which imposes an excise tax of P26.44 per liter under Section 143 of the National Internal Revenue Code (NIRC), as amended by RA No. 10351 beginning January 1, 2020.

ii. P1,061 under RA No. 11467 – the overpayment arose from the BIR's imposition of excise tax of P35.00 per liter on SMB's beer products, as provided under Section 143 of the NIRC, as amended by RA No. 11467, for the period January 23, 2020 to February 9, 2020. The said imposition was based on RMC No. 65-2020, as amended by RMC No. 113-2020, implementing RA No. 11467 at an earlier date (i.e., January 23, 2020) which is inconsistent with the actual effectivity date of RA No. 11467 (i.e., February 10, 2020).

Administrative Case

SMB filed an administrative claim for refund of overpayments of excise taxes for the period of January 1, 2020 to January 22, 2020 in the amount of P8 with the BIR on October 7, 2021. The BIR issued a TCC on December 17, 2021 in favor of SMB in the amount of P8 (Note 32). As at December 31, 2021, the TCC was not yet applied in any of SMB's tax obligations.

Filed by GSMI

GSMI filed two claims for refund for overpayments of excise taxes with the BIR which were then elevated to the CTA by way of petition for review as follows:

(a) CTA Case Nos. 8953 and 8954: These cases pertain to GSMI's Claims for Refund with the BIR, in the amounts of P582 in Case No. 8953, and P133 in Case No. 8954, or in the total amount of P715, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the periods from January 1, 2013 up to May 31, 2013 in Case No. 8953, and from January 8, 2013 up to March 31, 2013 in Case No. 8954.

After several hearings and presentation of evidence, both parties filed their respective Formal Offers of Evidence.

On July 28, 2020, the CTA Third Division rendered its Decision and denied GSMI's Petition for Review. GSMI received said Decision on August 24, 2020, for which it timely filed a Motion for Reconsideration on the aforementioned Decision on September 2, 2020, to which the CIR filed its Opposition.

The CTA Third Division issued an Amended Decision dated February 1, 2021 which partially granted GSMI's Motion for Reconsideration and ruled that GSMI is entitled to a refund of its erroneously and excessively paid excise taxes in the amount of P320 out of its original claim of P715.

GSMI and CIR subsequently filed Motions for Reconsideration on the aforesaid Amended Decision and Oppositions to each other's Motion for Reconsideration. In a Resolution dated October 28, 2021, the CTA Third Division denied for lack of merit GSMI's Motion for Reconsideration and CIR's Motion for Partial Reconsideration of the Amended Decision.

On January 4, 2022, GSMI elevated to the CTA *En Banc* the Decision dated July 28, 2020, Amended Decision dated February 1, 2021, and Resolution dated October 28, 2021 of the CTA Third Division, by way of a Petition for Review, which was docketed as CTA E.B. No. 2555.

Earlier, the CIR also filed a Petition for Review with the CTA *En Banc* elevating thereto the Amended Decision dated February 1, 2021 and Resolution dated October 28, 2021 of the CTA Third Division.

(b) CTA Case No. 9059: This case pertains to GSMI's Claim for Refund with the BIR, in the total amount of P26, representing payments of excise tax erroneously, excessively, illegally, and/or wrongfully assessed on and collected from GSMI by the BIR on removals of its distilled spirits or finished products for the period from June 1, 2013 up to July 31, 2013.

After presentation of its testimonial and documentary evidence, GSMI filed its Formal Offer of Evidence and Supplemental Offer of Evidence, which were all admitted by the CTA. BIR's presentation of evidence was set to January 23, 2019.

In a decision dated February 6, 2020, the CTA denied GSMI's Claim for Refund for insufficiency of evidence. On February 20, 2020, GSMI filed a Motion for Reconsideration of the said Decision. However, the Motion for Reconsideration was denied by the CTA on June 9, 2020. On August 28, 2020, GSMI elevated the case to the CTA *En Banc* by way of a Petition for Review.

In a Decision dated November 10, 2021, the CTA *En Banc* denied the Petition for Review filed by GSMI. The Decision dated February 6, 2020 and the Resolution dated June 9, 2020 of the CTA Second Division were affirmed.

On December 16, 2021, GSMI elevated the Decision of the CTA *En Banc* to the Supreme Court by way of a Petition for Review, which was docketed as SC G.R. No. 25839.

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

(a) 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 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. IBI's Petition was denied with finality on June 26, 2019.

On March 11, 2019, the Supreme Court issued a Resolution requiring IBI to file its comment to the BIR's Petition. IBI filed its Comment on June 17, 2019.

On December 16, 2019, IBI and the BIR executed a Compromise Agreement. The BIR recognized the total payment of IBI in the amount of P285 as full satisfaction of the latter's supposed tax liability for taxable year 2009. The BIR further acknowledged that IBI no longer has any tax liability based upon, arising from, or in connection with CTA Case No. 8607.

On July 6, 2021, the Supreme Court approved the Compromise Agreement and considered G.R. Nos. 240651 and 240665 closed and terminated.

(b) 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.

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. 246911-12 and 246865, respectively. Both Petitions were consolidated by the Supreme Court through a Resolution dated July 1, 2019.

On December 27, 2019, IBI filed a Manifestation informing the Supreme Court that on December 5, 2019 and December 16, 2019, IBI and the BIR, respectively, executed a Compromise Agreement to amicably settle IBI's deficiency taxes for taxable year 2010. In its Manifestation dated February 26, 2020, the BIR confirmed receipt of payment pursuant to the Compromise Agreement executed between the IBI and the BIR.

On September 2, 2020, the Supreme Court issued a Resolution requiring IBI and the BIR to manifest whether they consider the case closed and terminated. In compliance, IBI filed its manifestation on September 14, 2020. On December 3, 2020, IBI received a Manifestation filed by the BIR manifesting that in view of its receipt of certified true copy of Certificate of Availment (Compromise Settlement), the BIR considers the cases as closed.

On March 3, 2021, the Supreme Court considered GR Nos. 246911-12 and 246865, closed and terminated.

(c) On December 27, 2016, IBI received a Formal Letter of Demand for tax year 2012 with a demand for payment of income tax, VAT, withholding tax, documentary stamp tax (DST) and miscellaneous tax deficiencies with administrative penalties. IBI addressed the assessment of each tax type with factual and legal bases in a Protest filed within the reglementary period. Due to the inaction of the BIR, IBI filed a Petition for Review with the CTA Third Division and docketed as CTA Case No. 9657. In the meantime, an application for abatement was submitted to the BIR in August 2017. Both the Petition for Review and the application for abatement remain pending at the CTA Third Division and the BIR, respectively, with IBI submitting its Formal Offer of Evidence in October 2018 to the CTA Third Division. The Petition for Review, however, was subsequently transferred from the CTA Third Division to the First Division pursuant to CTA Administrative Circular No. 02-2018 dated September 18, 2018, reorganizing the three Divisions of the Court.

On March 2, 2020, the CTA First Division promulgated its Decision partially granting IBI's Petition for Review. The assessment for deficiency income tax, VAT, DST and compromise penalty are cancelled and set aside. However, the assessment for deficiency expanded withholding tax is affirmed, and IBI was ordered to pay deficiency expanded withholding tax including interest and surcharges amounting to P5.

On October 29, 2020, the BIR filed a Petition for Review with CTA *En Banc*. On January 25, 2021, IBI filed its Comment to the Petition for Review.

The CTA *En Banc* promulgated a Resolution on February 4, 2021 noting IBI's Comment to the Petition for Review, and referring the case for mediation in the Philippine Mediation Center - CTA.

SMFI

(a) SMFI (as the surviving corporation in a merger involving Monterey Foods Corporation [MFC]) vs. CIR CTA Case 9046

In connection with the tax investigation of MFC for the period January 1 to August 31, 2010, an 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 which the CIR denied prompting SMFI to file a Petition for Review with the CTA, docketed as CTA Case No. 9046.

The CTA First Division 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.

The BIR filed a Motion for Reconsideration with the CTA First Division, which was denied.

The BIR then filed a Petition for Review before the CTA *En Banc*, which was also denied.

While the Petition was pending, the BIR issued a Warrant of Distraint and/or Levy (WDL) against SMFI (as the surviving corporation). SMFI requested BIR for the lifting and cancellation of the WDL and filed an Urgent Omnibus Motion with the CTA to suspend collection of taxes and declare the WDL null and void.

To put an end to a protracted, expensive and mutually prejudicial litigation, SMFI and the BIR entered into an amicable settlement through execution of a Judicial Compromise Agreement (JCA), which the Supreme Court approved on June 28, 2021. The Supreme Court further ruled that the case should be considered closed and terminated.

(b) SMFI vs. CIR CTA Case No. 9241

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.

SMFI filed a Petition for Review before the CTA, docketed as CTA Case No. 9241.

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. The BIR then filed a Motion for Reconsideration which was denied.

Despite the finality of the Decision, the BIR issued a WDL against SMFI. SMFI requested BIR for the lifting and cancellation of the WDL.

To put an end to a protracted, expensive and mutually prejudicial litigation, SMFI and the BIR entered into an amicable settlement through execution of a JCA, which was approved by the CTA Third Division.

The CTA Third Division also declared the WDL null and void and ordered it to be cancelled and withdrawn.

(c) SMFI vs. Office of the City Treasurer, City of Davao

SMFI filed several protests against the assessments issued by the City Treasurer of Davao City imposing permit fees to slaughter against its poultry dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District both located in Davao City.

Following the dismissal of the appeals filed by SMFI with the Davao RTC, the following Petitions for review were filed with the CTA:

- CTA Case AC No. 209, filed on August 23, 2018
- CTA Case AC No. 210, filed on November 12, 2018
- CTA Case AC No. 249, filed on February 26, 2021

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 poultry dressing plants in Sirawan, Toril District and Los Amigos, Tugbok District, being privately owned and operated slaughterhouses are 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.

The CTA First Division dismissed the Petition docketed as CTA Case AC No. 209. SMFI's Motion for Reconsideration was denied. A Petition for Review was then filed with the CTA *En Banc*, which is pending resolution to date.

The CTA First Division also dismissed the Petition docketed as CTA Case AC No. 210. SMFI's Motion for Reconsideration was likewise denied. SMFI's Petition for Review with the CTA *En Banc* is pending resolution.

The last Petition for Review docketed as AC No. 249 is still pending resolution.

- 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, 2021. In the course of plaintiffs' presentation of evidence, they moved for trial by commissioner, which was denied by the trial court. The plaintiffs elevated the matter by way of a petition for certiorari to the Court of Appeals in Cebu City. On January 9, 2020, the Court of Appeals issued a Resolution granting plaintiffs' motion for reconsideration of the earlier resolution denying their petition and ordering Petron to file its comment on plaintiffs' petition within 10 days. On February 6, 2020, Petron filed a motion for reconsideration of said Resolution which remains pending to date. In the meantime, proceedings before the trial court continues. Less than 200 of the plaintiffs have testified so far.

- Lease Agreements with PNOC

  On October 20, 2017, Petron filed with the RTC of Mandaluyong City a complaint against the PNOC for the reconveyance of the various landholdings it conveyed to PNOC in 1993 as a result of the government-mandated privatization of Petron.

  The subject landholdings consist of the refinery lots in Limay, Bataan, 23 bulk plant sites and 66 service station lots located in different parts of the country. The Deeds of Conveyance covering the landholdings provide that the transfer of these lots to PNOC was without prejudice to the continued long-term use by Petron of the conveyed lots for its business operation. Thus, PNOC and Petron executed three lease agreements covering the refinery lots, the bulk plants, and the service station sites, all with an initial lease term of 25 years which expired in August 2018, with a provision for automatic renewal for another 25 years. In 2009, Petron, through its realty subsidiary, NVRC, had an early renewal of the lease agreement for the refinery lots with an initial lease term of 30 years, renewable for another 25 years.

  The complaint alleges that PNOC committed a fundamental breach of the lease agreements when it refused to honor both the automatic renewal clause in the lease agreements for the bulk plants and the service station sites and the renewed lease agreement for the refinery lots on the alleged ground that all such lease agreements were grossly disadvantageous to PNOC, a government-owned-and-controlled corporation.

  On December 11, 2017, the trial court granted Petron's prayer for a writ of preliminary injunction, enjoining PNOC from committing any act aimed at ousting Petron from possession of the subject properties until the case is decided.

  The court-mandated mediation was terminated on February 5, 2018 without any agreement between the parties. The judicial dispute resolution proceedings before the court were likewise terminated on March 28, 2019, after the parties failed to agree to a settlement. Without prejudice to any further discussion between the parties regarding settlement, the case was remanded to the trial court for trial proper, with the pre-trial held on September 10, 2019. Petron also filed a motion for summary judgment on May 17, 2019. In a resolution dated November 13, 2019, the trial court granted Petron's motion for summary judgment and ordered: (i) the rescission of the Deeds of Conveyance dated 1993 relating to Petron's conveyance of such leased premises to PNOC pursuant to a property dividend declaration in 1993, (ii) the reconveyance by PNOC to Petron of all such properties, and (iii) the payment by Petron to PNOC of the amount of P143, with legal interest from 1993, representing the book value of the litigated properties at the time of the property dividend declaration. PNOC filed a motion for reconsideration. Petron also filed a motion for partial reconsideration seeking a modification of the judgment to include an order directing PNOC to return to Petron all lease payments the latter had paid to PNOC since 1993.

Following the trial court's denial of their separate motions for reconsideration, both PNOC and Petron filed their respective notices of appeal with the trial court. The case was raffled off to the 5th Division of the Court of Appeals. Petron filed its appellant's brief in October 2020. PNOC filed its appellant's brief in November 2020. In a decision dated December 13, 2021, the Court of Appeals dismissed both appeals of Petron and PNOC and affirmed the resolution of the trial court as described above. The Court of Appeals upheld Petron's position that PNOC committed a substantial breach of its contractual obligation under the lease agreements when it dishonored the automatic renewal clause in the lease agreements and threatened to terminate Petron's lease thereby depriving Petron a long-term lease consistent with its business requirements, which was the primordial consideration in the Deeds of Conveyance. The Court of Appeals ruled, however, that, consistent with jurisprudence, while rescission repeals the contract from its inception, it does not disregard all the consequences that the contract has created and that it was therefore only proper that Petron paid PNOC the rentals for the use and enjoyment of the properties which PNOC could have enjoyed by virtue of the Deeds of Conveyance were it not for the lease agreements. On January 11, 2022, Petron filed its motion for reconsideration insofar as the decision dismissed the Petron's appeal to return the lease payments made by it to PNOC. PNOC also filed its own motion for reconsideration. The parties await the order of the Court of Appeals on the motions filed.

- 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 to supply diesel to Swakaya who subsequently sold the product to an operator of power plants in Sabah. In 2013, due to a government investigation, Swakaya's bank accounts were frozen which 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, correspondingly, pay POMSB directly. Unknown to POMSB, Swakaya had a financing arrangement with Sabah Development Bank (SDB) which obligated the power plants operator to remit to SDB payments due to Swakaya. Due to some administrative issues, the moneys due to POMSB were remitted by power plants operator into a joint Swakaya/SDB Bank account. Despite SDB's earlier promise to remit the moneys to POMSB once it is established that the payment was for a direct supply to the power plants operator, SDB subsequently refused and set-off the moneys against Swakaya's debt to the bank. The sum involved was RM25 (P307). POMSB sued Swakaya and SDB before the Kota Kinabalu High Court for, among others, breach of trust. Swakaya did not appear in court and judgment was awarded in favor of POMSB and against Swakaya.

  In April 2016, the Kota Kinabalu High Court ruled in favor of POMSB and a judgment sum inclusive of interest amounting to RM28 (P343) was deposited to its solicitor account in August 2016. SDB subsequently filed an appeal to Court of Appeal.

  In May 2017, the Court of Appeal re-affirmed the decision of the Kota Kinabalu High Court and dismissed SDB's appeal with costs RM0.015 (P0.20) awarded to POMSB. In June 2017, SDB filed a Notice of Motion for leave to appeal to the Federal Court against the decision of the Court of Appeal, which was granted in April 2018. After hearing the appeal, in February 2020, the Federal Court allowed the appeal by SDB and set aside the Court of Appeal's decision. POMSB filed an application for a review by the Federal Court (to set aside its own decision). On August 2, 2021, the Federal Court disallowed the review. No further action was taken by POMSB and the decision of the Federal Court has attained finality.

  Considering the length of time of litigation matters, a discount of RM8 (P95) was computed based on the original effective interest rate. Part of the discount, amounting to RM2 (P20) was unwound in 2019 and recognized as interest income.

  The balance amounting to RM23 (P282) was provided full impairment in 2019.

- Generation Payments to PSALM

  SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the performance bond posted by SPPC pursuant to the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the RTC of Mandaluyong City. In its Complaint, SPPC requested the RTC that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the performance bond of SPPC. On even date, the RTC issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the performance bond of SPPC. The TRO was extended for until September 28, 2015.

On September 28, 2015, the RTC issued an order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 19, 2015, the RTC also issued an order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco.

In an order dated June 27, 2016 (the "June 27, 2016 RTC Order"), the RTC denied PSALM's: (1) Motion for Reconsideration of the order dated September 28, 2015, which issued a writ of preliminary injunction enjoining PSALM from further proceedings with the termination of the Ilijan IPPA Agreement while the case is pending; (2) Motion for Reconsideration of the order dated October 19, 2015, which allowed Meralco to intervene in the case; and (3) Motion to Dismiss. In response to June 27, 2016 RTC Order, PSALM filed a petition for certiorari with the Court of Appeals seeking to annul the same. PSALM also prayed for the issuance of a TRO and/or writ of preliminary injunction "against public respondent RTC and its assailed orders". The Court of Appeals, however, denied the petition filed by PSALM in its decision dated December 19, 2017 ("CA Decision"). In the CA Decision, the Court of Appeals upheld the lower court's issuance of a writ of preliminary injunction against PSALM prohibiting the termination of the Ilijan IPPA Agreement while the case in the lower court is pending.

PSALM filed its Motion for Reconsideration dated January 19, 2018 to the CA Decision. In a Resolution dated July 12, 2018 (the "2018 CA Resolution"), the Court of Appeals denied PSALM's Motion for Reconsideration of the CA Decision.

On September 4, 2018, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction before the Supreme Court praying for the reversal and nullification of the CA Decision and the 2018 CA Resolution. Said petition was denied by the Supreme Court in its resolution dated March 4, 2019 (the "March 4, 2019 SC Resolution") due to lack of payment of the required fees and for PSALM's failure to sufficiently show that the Court of Appeals committed any reversible error in the challenged decision and resolution as to warrant the exercise of the Court of Appeals' discretionary appellate jurisdiction. The motion for reconsideration filed by PSALM pursuant to the March 4, 2019 SC Resolution was denied by the Supreme Court in a resolution dated August 5, 2019 which became final and executory through an Entry of Judgment issued by the Supreme Court on the same date.

Prior to the CA Decision, on December 18, 2017, the presiding judge of the RTC who conducted the judicial dispute resolution issued an order inhibiting himself in the instant case. The case was then re-raffled to another RTC judge in Mandaluyong City.

SPPC filed a Request for Motion for Production of Documents on February 28, 2018, while PSALM filed its Manifestation with Motion to Hear Affirmative Defenses and Objections Ad Cautelam.

On September 24, 2018, the RTC issued an order denying PSALM's Motion to Hear Affirmative Defense and granted SPPC's Motion for Production of Documents. PSALM then filed a Motion for Reconsideration of the said order. On December 14, 2018, SPPC filed its opposition to the Motion for Reconsideration. In an order dated April 29, 2019, the RTC denied the Motion for Reconsideration filed by PSALM on the basis that it found no strong and compelling reason to modify, much lease reverse, its order dated September 24, 2018 which denied the Motion to Hear Affirmative Defenses filed by PSALM.

On July 23, 2019, PSALM filed a Petition for Certiorari with urgent prayer for the issuance of a TRO and/or Writ of Preliminary Injunction with the Court of Appeals, seeking the reversal of the September 24, 2018 and April 29, 2019 orders of the RTC. Although, the Court of Appeals dismissed the Petition for Certiorari filed by PSALM in a Resolution dated August 23, 2019 (the "2019 CA Resolution"), the Court of Appeals subsequently granted the Motion for Reconsideration filed by PSALM in response to the 2019 CA Resolution. In a Resolution dated February 24, 2020, the Court of Appeals required PSALM to revise its petition and send the revised copies to SPPC and Meralco.

In January 2020, PSALM also filed with the RTC a Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction with Application to File Counterbond. SPPC filed its Opposition to this motion citing SPPC's letter dated March 6, 2020 informing PSALM of its intention to advance the full settlement of the Monthly Payments due for the period March 26, 2020 until the end of the IPPA Agreement on June 26, 2022. SPPC stated that given this intention, PSALM can no longer assert that it stands to suffer injury in the form of reduction in expected cash or that the Government would be exposed to financial risk.

PSALM filed several pleadings: (1) Urgent Ex-Parte Motion for Early Resolution of its Motion for Leave to File Amended Answer Ad Cautelam dated May 28, 2020; (2) Motion for Reconsideration of the RTC's Order of February 14, 2020, which did not allow PSALM to present witnesses in support of its Motion to Dissolve the Writ of Preliminary Injunction and directed the parties to submit pleadings and documents in support of their respective positions; and (3) Reply to SPPC's Opposition to its Motion to Dissolve the Writ of Preliminary Injunction. On July 6, 2020, SPPC filed an Opposition to the Motion for Reconsideration filed by PSALM on the RTC's Order of February 14, 2020.

PSALM also filed a Reply to SPPC's Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction. In August 2020, PSALM also filed a Reply to the Supplemental Opposition to the Motion Ad Cautelam to Dissolve the Writ of Preliminary Injunction. On September 14, 2020, SPPC filed a Motion to Admit Consolidated Rejoinder and Consolidated Rejoinder. The Consolidated Rejoinder addresses both PSALM's Reply to the Opposition to the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction and its Reply to SPPC's Supplemental Opposition to the same motion.

In September 2020, PSALM filed an Urgent Ex Parte Motion for Early Resolution of its Motion for Leave to File the Amended Answer Ad Cautelam.

In an Order dated November 17, 2020, the RTC considered as submitted for resolution, PSALM's Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction.

In an Order dated November 27, 2020, the RTC denied PSALM's Motion for Leave to File the Amended Answer Ad Cautelam. On January 29, 2021 PSALM filed a Motion for Reconsideration. SPPC filed an Opposition and PSALM filed a Reply.

On January 15, 2021, SPPC filed a Motion for Summary Judgment, praying that judgment be rendered in favor of SPPC on all its causes of action based on the pleadings, affidavits, and admissions on file. PSALM has filed an Opposition to the motion.

In an Order dated March 23, 2021 (the "March 23, 2021 RTC Order"), the RTC denied PSALM's Motion for Reconsideration of the Order ofNovember 27, 2020, which denied the Motion for Leave to File Amended Answer Ad Cautelam. In the same Order, the RTC also denied SPPC's Motion for Summary Judgment and referred the case to mediation.

The mediation scheduled on April 19, 2021, was not held because the Supreme Court directed the closure of courts and related offices, including the Philippine Mediation Center, for the duration of the enhanced community quarantine and modified enhanced community quarantine.

In an Order dated May 18, 2021, the RTC recalled March 23, 2021 RTC Order, where it set the case for mediation given that the parties have already exhausted both court-annexed mediation and judicial dispute resolution and scheduled the pre-trial of the case on June 18, 2021. The pre-trial was however cancelled and no new schedule was provided by the RTC. SPPC filed a motion to postpone the pre-trial on the ground that it still has a pending Motion for Reconsideration of the order denying its Motion for Summary Judgement. PSALM filed a Motion for Leave to File a Supplemental Pre-trial Brief, purportedly for purposes of complying with Section 6, Rule 18 of the Amended Rules of Civil Procedure.

On June 21, 2021, SPPC received PSALM's Opposition to its Motion for Reconsideration of the Order denying the Motion for Summary Judgment. On June 25, 2021, SPPC filed a Motion for Leave to File Reply and Reply to PSALM's Opposition. On July 19, 2021, PSALM moved for reconsideration of the court's postponement of the pre-trial and filed a Rejoinder to SPPC's Reply.

The RTC suspended pre-trial proceedings until after its resolution of SPPC's Motion for Reconsideration of the denial of the Motion for Summary Judgment.

In June 2021, PSALM also filed a petition for certiorari under Rule 65 of the rules of Court to annul the trial court's Order of November 27, 2020, which denied PSALM's Motion for Leave to File Amended Answer, and the March 23, 2021 RTC Order, which denied PSALM's Motion for Reconsideration of the Order of denial. The petition has been docketed as CA-G.R. SP NO. 169443.

On August 5, 2021, the Court of Appeals issued a Resolution, directing SPPC to file a Comment on the petition in CA-G.R. SP NO. 169443 within 10 days, and PSALM to file a Reply within five days from its receipt of the Comment. Since the courts in the National Capital Region were physically closed until October 15, 2021 because of the quarantine, SPPC was only able to file the Comment by registered mail on October 6, 2021. PSALM filed its reply on October 29, 2021.

On September 13, 2021, the RTC denied SPPC's motion for partial reconsideration of the March 23, 2021 RTC Order and scheduled the pre-trail of the case on November 19, 2021.

The case underwent pre-trial on November 19, 2021 while the presentation of evidence is scheduled on January 28, February 18, and March 4 and March 25, 2022. The January 28, 2022 hearing by video conferencing was cancelled due to the physical closure of courts in the National Capital Region while the February 18, 2022 hearing, was cancelled upon the motion of the counsel for PSALM.

On December 7, 2021, the RTC denied the Motion Ad Cautelam to Lift or Dissolve the Writ of Preliminary Injunction filed by PSALM. PSALM filed a Motion for Reconsideration to which SPPC has filed an Opposition.

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 June 2022.

- Intellectual Property Rights

  i. G.R. No. 196372: This case pertains to GSMI's application for the registration of the trademark "GINEBRA" under Class 33 covering gin with the Intellectual Property Office of the Philippines (IPOPHL). The IPOPHL rejected GSMI's application on the ground that "GINEBRA" is a Spanish word for gin, and is a generic term incapable of appropriation.

     When the Court of Appeals affirmed the IPOPHL's ruling, GSMI filed a Petition for Review on Certiorari (the Petition) with the Supreme Court. The Supreme Court denied GSMI's Petition. GSMI moved for a reconsideration thereof, and likewise filed a Motion to Refer its Motion for Reconsideration to the Supreme Court *En Banc*. The Supreme Court denied GSMI's Motion for Reconsideration with finality, as well as GSMI's Motion to Refer to its Motion for Reconsideration to the Supreme Court *En Banc*.

Subsequently, GSMI filed a Manifestation with Motion for Relief from Judgment (the "Manifestation") and invoked the case of "*League of Cities vs. Commission of Elections*" (G.R. Nos. 176951, 177499 and 178056) to invite the Supreme Court *En Banc* to re-examine the case. The Office of the Solicitor General filed its Comment Opposition to the Manifestation.

On June 26, 2018, the Supreme Court *En Banc* issued a Resolution which resolves to: (a) Accept the subject case which was referred to it by the Third Division in the latter's resolution dated August 7, 2017; (b) Treat as a Second Motion for Reconsideration (of the resolution dated June 22, 2011) GSMI's Manifestation with Motion for Relief from Judgment dated November 28, 2011; (c) Reinstate the Petition; and (d) Require the respondents to Comment on the Petition within a non-extendible period of ten (10) days from notice thereof.

Respondents, through the OSG, filed their Comment dated July 31, 2018 while GSMI filed its Reply with Leave on August 20, 2018.

On January 4, 2019, the Supreme Court Third Division issued a Resolution ordering the consolidation of the previously consolidated cases (G.R Nos. 216104, 210224 and 219632) with the *En Banc* case (G.R. No. 196372), stating that "considering that all these cases involve identical parties and raise interrelated issues which ultimately stemmed from the registration of trademark of [TDI] and [GSMI] before the [IPO]."

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court *En Banc* resolved to transfer the consolidated cases from the Third Division to the *En Banc*, where this case which has the lowest docket number, i.e. G.R. No. 196372, was originally assigned, hence, all four cases are now consolidated and pending before the Supreme Court *En Banc*. Furthermore, the Supreme Court *En Banc* also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

ii. 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 design, 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" has already obtained, over the years, a considerable number of loyal customers who associate the mark "GINEBRA" with GSMI.

On the other hand, upon GSMI's Appeal, the Court of Appeals also set aside the RTC's Decision and ruled that "GINEBRA" is not a generic term, there being no evidence to show that an ordinary person in the Philippines would know that "GINEBRA" is a Spanish word for "gin". According to

the Court of Appeals, because of GSMI's use of the term in the Philippines since the 1800s, the term "GINEBRA" now exclusively refers to GSMI's gin products and to GSMI as a manufacturer. The Court of Appeals added that "the mere use of the word 'GINEBRA' in "Ginebra Kapitan" is sufficient to incite an average person, even a gin-drinker, to associate it with GSMI's gin product", and that TDI "has designed its bottle and label to somehow make a colorable similarity with the bottle and label of Ginebra S. Miguel".

TDI filed separate Petitions for Review on Certiorari with the Supreme Court, docketed as G.R. Nos. 210224 and 219632, which were eventually consolidated by the Supreme Court on April 18, 2016.

On October 26, 2016, GSMI filed its Comment on TDI's Petition for Review on Certiorari.

On December 17, 2018, the Supreme Court consolidated this case with Ginebra San Miguel Inc. vs. Court of Appeals, Director General of the Intellectual Property Office, and Director of the Bureau of Trademarks (G.R. No. 196372).

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court *En Banc* resolved to transfer the consolidated cases from the Third Division to the *En Banc*. Furthermore, the Supreme Court *En Banc* also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

iii. 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 Comment on TDI's Petition for Review on Certiorari.

On December 17, 2018, the Supreme Court consolidated this case with Ginebra San Miguel Inc. vs. Court of Appeals, Director General of the Intellectual Property Office, and Director of the Bureau of Trademarks (G.R. No. 196372).

On February 3, 2020, GSMI filed a Manifestation with the Supreme Court Third Division, informing the Court that on January 27, 2020, it received a copy of a Decision dated December 27, 2019 rendered by the IPO Director General in the consolidated appealed cases involving GSMI's Oppositions to TDI's applications for the registration of the marks "Ginebra Lime & Device," "Ginebra Orange & Device," "Ginebra Especial & Device" and "Ginebra Pomelo & Device", for use on gin products. In the joint Decision, the IPO Director General ruled in favor of GSMI and held that despite being generic or descriptive, the term "GINEBRA" had already attained a secondary meaning in relation to the gin products of GSMI. The Manifestation was filed to inform the Supreme Court Third Division of the status of cases in IPOPHL which involve GSMI's claim over "GINEBRA".

In a Resolution dated March 10, 2020, the Supreme Court *En Banc* resolved to transfer the consolidated cases from the Third Division to the *En Banc*. Furthermore, the Supreme Court *En Banc* also noted GSMI's Manifestation dated February 3, 2020 on the IPO Director General's Decision dated December 27, 2019.

- Imported Industrial Fuel Oil

SLHBTC has an on-going case with the CTA against the Commissioner of Customs (the Commissioner). On January 16, 2016, a Warrant of Seizure and Detention was issued against the 44,000 metric tons of fuel imported by SLHBTC with approximate value of P751. The Commissioner alleged that SLHBTC discharged fuel directly from the vessel carrying SLHBTC's imported fuel to another vessel via loop loading without paying duties and taxes and therefore, violating the Customs Modernization Tariff Act and other customs regulations. On January 20, 2017, the District Collector of Customs issued a decision forfeiting the fuel in favor of the government.

Subsequently, SLHBTC filed with the CTA a petition seeking the lifting and termination of the Warrant of Seizure and Detention and the reversal of the decision issued by the District Collector of Customs.

On April 19, 2017, SLHBTC filed with the CTA a Motion for Special Order to release the 44,000 metric tons of fuel, which was granted on January 28, 2018 subject to the posting of a surety bond amounting to P123 or one and one-half times of the assessed amount of P82 representing VAT. SLHBTC posted the surety bond and the 44,000 metric tons of fuel were released.

On September 18, 2018, a pre-trial conference was conducted.

However, by Order dated September 25, 2018, the case was transferred to the CTA First Division.

The latest court hearing for the presentation of evidence was made in February 2020.

On December 1, 2020, the customs officer representing the District Collector of Customs was cross-examined by the SLHBTC legal counsel. He admitted that he did not examine the imported documents prior to recommending the issuance of a Writ of Seizure and Detention.

On February 2021, the case was deemed submitted for decision. As at the reporting date, the case is still pending decision with the CTA.

On February 24, 2022, the Petition for Review filed by SLHBTC in March 2017 was granted by the CTA. Accordingly, the Warrant of Seizure and Detention was lifted, and the decision issued by the District Collector of Customs in January 2017 was reversed and set aside. In addition, the order granted by the CTA in January 2018 to release the 44,000 metric tons of fuel is now permanent and the surety bond of P123 shall be released and discharged upon finality of judgement.

SLHBTC and its legal counsel assessed that it has a meritorious case and the final outcome will not have a material adverse effect on the SLHBTC's business financial condition and results of operations.

- 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 Ilijan's IPPA Agreement, which was made by PSALM with manifest partially 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 an 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 consignation against PSALM arising from PSALM's refusal to accept SMEC's remittances corresponding to the proceeds of the sale on the WESM for electricity generated from capacity in excess of the 1,000 MW of the Sual Power Plant ("Sale of the Excess Capacity"). With the filing of the complaint, SMEC also consigned with the RTC Pasig, the amount corresponding to the proceeds of the Sale of the Excess Capacity for the billing periods December 26, 2015 to April 25, 2016.

  On October 3, 2016, SMEC filed an Omnibus Motion to Admit Supplemental Complaint and to Allow Future Consignation without Tender ("Omnibus Motion"). 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 and finding that the ERC has the technical competence to determine the proper interpretation of "contracted capacity", the fairness of the settlement formula and the legality of the memorandum of agreement.

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. The motion has not yet been resolved as of date.

In an Order dated November 19, 2019, the presiding judge voluntarily inhibited herself from further hearing the case.

On December 13, 2019, the case was re-raffled to Branch 268. On February 7, 2020, a clarificatory hearing was held and Branch 268 noted the pending incidents, which are: (a) SMEC's Motion for Partial Reconsideration and Supplemental Motion for Reconsideration of the Order dated May 22, 2018; (b) SMEC's two Motions to Admit Supplemental Complaint; and (c) PSALM's Motion to Set Preliminary Hearing on the Special and Affirmative Defenses.

In an Order dated September 30, 2021, the RTC Branch 268: (a) granted SMEC's Motion for Reconsideration of the Order of May 22, 2018, which dismissed the case for lack of jurisdiction; (b) granted SMEC's Omnibus Motion to Admit Supplemental Complaint and Allow Future Consignations without Tender; and (c) reinstated the Complaint (the "September 30, 2021 Order").

RTC Branch 268 scheduled the pre-trial on December 13, 2021 but the pre-trial was postponed because PSALM filed an Omnibus Motion for Reconsideration of the September 30, 2021 Order and to Resolve Pending Motion to Set Preliminary Hearing on Special and Affirmative Defenses, and to Defer Pre-trial. SMEC has already filed an Opposition to the Omnibus Motion.

Further related thereto, on December 1, 2016, SMEC received a copy of a Complaint filed by TPEC and TeaM Sual Corporation with the ERC against SMEC and PSALM in relation to the Excess Capacity issues, which issues have already been raised in the abovementioned cases. SMEC filed a Motion to Dismiss and Motion to Suspend Proceeding of the instant case. The complaint is still pending with the ERC to date.

As at December 31, 2021 and 2020 the total amount consigned with the RTC Pasig is P491, included under "Other noncurrent assets", particularly "Restricted cash" account, in the consolidated statements of financial position (Note 18).

- TRO Issued to Meralco

SMEC, SPPC, SPDC, MPPCL and other generation companies became parties to a Petition for Certiorari and Prohibition with prayer for TRO and/or Preliminary Injunction ("Petition") filed in the Supreme Court by special interest groups which sought to stop the imposition of the increase in generation charge of Meralco for the November 2013 billing month. On December 23, 2013, the Supreme Court issued a TRO ordering Meralco not to collect, and the generators not to demand payment, for the increase in generation charge for the November 2013 billing month. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. The TRO was originally for a period of 60 days.

On January 8, 2014, Meralco filed its Consolidated Comment/Opposition with Counter-Petition ("Counter-Petition") which prayed, among others, for the inclusion of SMEC, SPPC, SPDC, MPPCL and several generators as respondents to the case. On January 10, 2014, the Supreme Court issued an order treating the Counter-Petition as in the nature of a third party complaint and granting the prayer to include SMEC, SPPC, SPDC and MPPCL as respondents in the Petition.

On February 18, 2014, the Supreme Court extended the TRO issued on December 23, 2013 for another 60 days or until April 22, 2014 and granted additional TROs enjoining PEMC and the generators from demanding and collecting the deferred amounts. In a resolution dated April 22, 2014, the Supreme Court extended indefinitely the effectivity of the TROs issued on December 23, 2013 and February 18, 2014. To date, the Petition is pending resolution with the Supreme Court.

- ERC Order Voiding WESM Prices

  Relative to the above-cited Petition, on December 27, 2013, the DOE, ERC, and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price was set to be effective for 90 days until a new cap is decided upon.

  On March 3, 2014, the ERC, in the exercise of its police power, issued an order in Miscellaneous Case No. 2014-021, declaring the November and December 2013 Luzon WESM prices void, imposed the application of regulated prices and mandated PEMC, the operator of the WESM, to calculate and issue adjustment bills using recalculated prices (the "March 3, 2014 Order"). On March 27, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days from receipt of the order within which to comply with the settlement of their respective adjusted WESM bills in accordance with the March 3, 2014 Order. The period to comply with the settlement of the adjusted WESM bills was further extended by the ERC in a subsequent order dated May 9, 2014. Based on these orders, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC and MPPCL recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment, the settlement of which have been covered by a 24-month Special Payment Arrangement with PEMC which was already completed on May 25, 2016.

  SMEC, SPPC, SPDC and MPPCL filed various pleadings requesting ERC for the reconsideration of the March 3, 2014 Order. Other generators also requested the Supreme Court to stop the implementation of the March 3, 2014 Order.

  On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review under Rule 43 of the Revised Rules of Court assailing the ERC orders dated March 3, 27 and May 9, 2014 (the "2014 ERC Orders"). On the other hand, MPPCL filed its Petition for Review with the Court of Appeals on December 12, 2014.

  After consolidating the cases, the Court of Appeals, in its decision dated November 7, 2017 (the "November 7, 2017 Decision"), granted the Petition for Review filed by SMEC, SPPC, SPDC, and MPPCL, declaring the 2014 ERC Orders null and void and accordingly reinstated and declared as valid the WESM prices for Luzon for the supply months of November to December 2013.

  Motions for Reconsideration of the November 7, 2017 Decision and Motions for Intervention and Motions to Admit Motions for Reconsideration were filed by various intervenors.

  In a resolution dated March 22, 2018 (the "March 22, 2018 Resolution"), the Court of Appeals denied the aforesaid motions. In June 2018, the intervenors filed their respective motions for reconsideration of the said resolution of the Court of Appeals dated March 22, 2018. On June 27, 2018, MPPCL filed a Consolidated Comment to various Motions for Reconsideration while SMEC, SPPC and SPDC filed their Consolidated Opposition to said Motions for Reconsideration on July 27, 2018.

  On March 29, 2019, the Court of Appeals issued an Omnibus Resolution affirming the November 7, 2017 Decision and the March 22, 2018 Resolution.

  The intervenors thereafter filed petitions for certiorari before the Supreme Court, First Division. Each were denied by the Supreme Court through its resolutions dated September 11, 2019 and October 1, 2019 generally on the same ground that the petitioners each failed to sufficiently show that the Court of Appeals committed any reversible error in promulgating its resolution dated March 22, 2018 denying petitioners' motions to intervene and the subsequent Omnibus Resolution dated March 29, 2019 denying the petitioners' motions for reconsideration of the denial of their respective motions to intervene.

  MPPCL filed on January 22, 2020, while SMEC, SPPC and SPDC filed on January 30, 2020, their respective Comments on the Petition for Review filed by the ERC with the Supreme Court. In its petition, the ERC appealed the November 7, 2017 Decision and Omnibus Resolution dated March 29, 2019, which nullified and set aside the 2014 ERC Orders, which declared the WESM prices for November and December 2013 void.

PEMC also filed a Motion to Admit Comment and Comment on the ERC's Petition for Review both dated March 12, 2020.

In a Resolution dated February 10, 2020, the Supreme Court directed the respondents to file their respective Comments on the Petition for Review filed by Meralco ("Meralco Petition"). SMEC, SPPC and SPDC, received, through counsel, a copy of the Resolution on June 25, 2020. SMEC, SPPC and SPDC filed on July 15, 2020, while MPPCL filed on July 16, 2020, their Comments on the Meralco Petition, all within the period of extension granted by the Supreme Court.

On July 9, 2020, AP Renewables Inc. ("APRI") filed a Motion to Consolidate praying for the Supreme Court to direct the consolidation of the foregoing case with ERC v. SMEC, et. al. (SC-G.R. Nos. 246621-30, First Division). The ERC, through the Office of the Solicitor General, filed a Manifestation and Motion dated September 15, 2020, agreeing with APRI but deferring to the judgment of the Supreme Court on the matter.

On July 21, 2020, Meralco filed a Motion for Leave to File and Admit the Attached Manifestation with Manifestation, both of even date, (collectively, "Meralco Manifestation"), praying that the Supreme Court apply the ruling in the case of PSALM v. PEMC (G.R. No. 190199, March 11, 2020) in resolving the instant case. The Supreme Court has not yet issued an order to respondents to comment on said Meralco Manifestation.

On September 22, 2020, SMEC, SPPC and SPDC filed motions to admit their Comment on the Meralco Manifestation.

Entries of judgment have been issued by the Supreme Court certifying that the resolutions denying the Petitions for Review on Certiorari filed by various intervenors against SMEC, SPPC, SPDC and MPPCL, among others, have become final and executory.

In a Resolution dated November 4, 2020, the Supreme Court directed the consolidation of the separate petitions filed by the ERC and Meralco considering that said cases involve the same parties, raise the same issues, and assail the same decision and resolution, and the transfer of the Meralco Petition to the third division of the Supreme Court handling the petition by the ERC.

The ERC has also filed its Consolidated Reply to the comments on its petition dated November 18, 2020. To date, the case remains pending with the Supreme Court.

Upon finality of the decision, a claim for refund may be made by the relevant subsidiaries with PEMC for an amount up to P2,322, plus interest.

*b. EPIRA*

The EPIRA sets forth the following: (i) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (ii) Section 31(c) requires the transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP Administrators as one of the conditions for retail competition and open access; and (iii) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which SMC Global was selected winning bidder of the IPPA Agreements (Note 34).

The EPIRA requires generation and DU companies to undergo public offering within five years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as at December 31, 2021 and 2020.

c. *Notice of Withdrawal of Philippine Competition Commission (PCC) Notification for the Acquisition of Holcim Philippines, Inc. (HPI)*

On May 10, 2019, the Parent Company, through FSCII, a subsidiary of SMEII, signed a definitive agreement to acquire a controlling interest in HPI from entities controlled by Lafarge Holcim which was subject to the PCC review and approval.

On April 23, 2020, the PCC issued Commission Resolution No. 010-2020 which resolved to suspend all proceedings pending before it during the ECQ period in accordance with Administrative Order No. 30, issued by the President of the Philippines on April 21, 2020. On May 10, 2020, the Parent Company disclosed to the PSE, that the agreement to acquire the 85.73% shares of HPI, between and among FSCII, the Parent Company and Holderfin B.V. dated May 10, 2019, has lapsed in accordance with its terms. The completion of the acquisition required the approval of the PCC which was not able to be achieved. In view of the foregoing, the proposed acquisition by FSCII of the 85.73% of HPI shall no longer proceed. Accordingly, FSCII withdrew the launch of the tender offer of the HPI shares held by its minority shareholders which was made by the Parent Company on September 23, 2019. On May 13, 2020, Top Frontier filed a notice of withdrawal of its notification to the PCC covering the aforementioned proposed acquisition.

d. *Effect of COVID-19*

2021 was a year of economic recovery which saw business operations once again opening up, while the challenges of COVID-19 still remained throughout the year. Commercial activities have started to pick up as COVID-19 quarantine restrictions were relatively lighter compared to 2020.

The Parent Company and its subsidiaries have shown a strong recovery, registering a 30% increase in sales compared to 2020 and just 8% behind pre-pandemic level in 2019 from a 29% decline in 2020. Consolidated operating income grew 64% from the previous year and 1% higher than the 2019 pre-pandemic level.

e. *Uncertainty Due to Russia-Ukraine Conflict*

The ongoing conflict between Russia and Ukraine has no direct effect to the Parent Company and its subsidiaries. Petron, the Fuel and Oil business of the Parent Company, primarily sources its crude requirement from the Middle East and does not have a term crude supply contract with Russia. However, based on recent events and market sentiments, oil prices are expected to be high during the crisis and in the event of a protracted conflict, oil supply could become tight.

The extent to which the ongoing conflict will affect the Parent Company and its subsidiaries will depend on future developments, including the actions and decisions taken or not taken by the Organization of the Petroleum Exporting Countries and other oil producing countries, international community and the Philippine government, which are highly uncertain and cannot be quantified nor determined as at March 10, 2022.

f. *Commitments*

The outstanding purchase commitments of the Group amounted to P154,461 as at December 31, 2021.

Amount authorized but not yet disbursed for capital projects is approximately P320,973 as at December 31, 2021.

These consist of construction, acquisition, upgrade or repair of fixed assets needed for normal operations of the business. The said projects will be carried forward to the next quarter until its completion. The fund to be used for these projects will come from available cash, short and long-term loans.

*g. 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 P50.999 and P48.023 in 2021 and 2020, respectively, for consolidated statements of financial position accounts; and average rates of P49.285, P49.624 and P51.790 in 2021, 2020 and 2019, respectively, for income and expense accounts.

*h.* Certain accounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

SAN MIGUEL CORPORATION


**CONTACT US**
CORPORATE HEAD OFFICE
SAN MIGUEL CORPORATION
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
P.O. Box 271 Manila Central Post Office
T (632) 8-632-3000

**San Miguel Customer Care Center**
San Miguel Customer Care Hotline
T (632) 8-632-2000
Email: customercare@sanmiguel.com.ph

**Shareholder Services and Assistance**
SMC Stock Transfer Service Corporation
40 San Miguel Avenue, Mandaluyong City
1550 Metro Manila, Philippines
T (632) 8-632-3450 to 52
F (632) 8-632-3535
Email: smc_stsc@sanmiguel.com.ph

**Institutional Investor Inquiries**
SMC - Investor Relations
T (632) 8-632-3752/ 8-632-3422
F (632) 8-632-3313/ 8-632-3749
Email: SMCInvestorRelations@sanmiguel.com.ph

**Our Website**
http://www.sanmiguel.com.ph



The San Miguel Corporation Annual Report is printed on paper certified by the Forest Stewardship Council. Production of the report utilized process free plates and CO2-neutral printing press equipment.

WE USE KODAK SONORA PROCESS FREE PLATES

Design Matchbox
Photos by Paolo Antonio Buendia, Alexies Santiago, and Paul Quiambao
Additional photos by Jay Marcos and Blair Bernardino



SAN MIGUEL
CORPORATION

San Miguel Avenue,
Mandaluyong City
1550 Metro Manila
Philippines

Tel. (632) 8-632-3000

**www.sanmiguel.com.ph**