

## Loida E. Prats

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**From:** Mary Rose S. Tan  
**Sent:** Friday, 22 April 2022 11:12 AM  
**To:** Loida E. Prats  
**Subject:** FW: SEC CiFSS-OST Initial Acceptance

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**From:** noreply-cifssost@sec.gov.ph <noreply-cifssost@sec.gov.ph>  
**Sent:** Friday, 22 April 2022 11:07 AM  
**Subject:** SEC CiFSS-OST Initial Acceptance

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**Company Name:** SAN MIGUEL CORPORATION  
**Document Code:** AFS

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Thank you.

### **SECURITIES AND EXCHANGE COMMISSION**

Secretariat Building, PICC Complex,  
Roxas Boulevard, Pasay City,  
1307, Metro Manila, Philippines

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Transaction Code: **AFS-0-4P3VRZVP0AH969EHHNTVNRNTM06DDE9GJH**Submission Date/Time: **Apr 21, 2022 06:04 PM**Company TIN: **000-060-741**

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**SAN MIGUEL CORPORATION**

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

The management of San Miguel Corporation (the "Company") is responsible for the preparation and fair presentation of the separate financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**RAMON S. ANG**

Vice Chairman, President and  
Chief Executive Officer

**FERDINAND K. CONSTANTINO**

Senior Vice President and  
Chief Finance Officer/Treasurer

Signed this 10<sup>th</sup> day of March 2022

ACKNOWLEDGEMENT

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

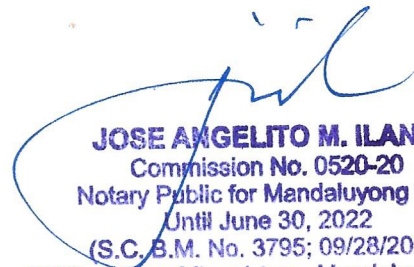
Before me, a Notary Public for and in Mandaluyong City, this 10th day of March 2022, personally appeared the following:

<u>Name</u>	<u>Passport No.</u>	<u>Date / Place of Issue</u>
Ramon S. Ang	P2247867B	05/22/2019/DFA Manila
Ferdinand K. Constantino	P6892447B	06/02/2021/DFA NCR East

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

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

Doc. No.: 9 ;  
Page No.: 3 ;  
Book No.: 4 ;  
Series of 2022.

  
**JOSE ANGELITO M. ILANO**  
Commission No. 0520-20  
Notary Public for Mandaluyong City  
Until June 30, 2022  
(S.C.B.M. No. 3795; 09/28/2021)  
SMC, 40 San Miguel Ave., Mandaluyong City  
Roll No. 62172  
PTR No. 4884369; 01/14/22; Mandaluyong City  
IBP Lifetime Member No. 018308; 12/14/17; Quezon City  
MCLE Compliance No. V-0022159; 04/14/22; Pasig City



# SAN MIGUEL CORPORATION

**SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

With Independent Auditors' Report



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 separate financial statements of San Miguel Corporation (the Company), which comprise the separate statements of financial position as at December 31, 2021 and 2020, and the separate statements of income, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2021 and 2020, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

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)



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

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

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

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

### *Auditors' Responsibilities for the Audit of the Separate Financial Statements*

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

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

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



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

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

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

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

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

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

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

DARWIN P. VIROCEL

Partner

CPA License No. 0094495

SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years covering the audit of 2019 to 2023 financial statements

Tax Identification No. 912-535-864

BIR Accreditation No. 08-001987-031-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8854088

Issued January 3, 2022 at Makati City

March 18, 2022

Makati City, Metro Manila





R.G. Manabat & Co.  
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Email ph-inquiry@kpmg.com

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

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

We have audited the accompanying separate financial statements of San Miguel Corporation (the Company) as at and for the year ended December 31, 2021, on which we have rendered our report thereon dated March 18, 2022.

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

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

DARWIN P. VIROCEL  
Partner  
CPA License No. 0094495  
SEC Accreditation No. 94495-SEC, Group A, valid for five (5) years  
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  
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March 18, 2022  
Makati City, Metro Manila

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financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
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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)

**SAN MIGUEL CORPORATION**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**  
(In Millions)

	<i>Note</i>	2021	2020
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4, 5, 28, 29	<b>P96,509</b>	P135,816
Receivables - net	4, 6, 22, 24, 28, 29	<b>91,323</b>	88,562
Prepaid expenses and other current assets	22, 28, 29	<b>5,655</b>	5,411
<b>Total Current Assets</b>		<b>193,487</b>	229,789
<b>Noncurrent Assets</b>			
Investments and advances - net	4, 7, 28, 29	<b>730,333</b>	680,565
Property, plant and equipment - net	4, 8	<b>1,250</b>	1,162
Right-of-use assets - net	4, 9	<b>444</b>	519
Investment property - net	4, 10	<b>779</b>	790
Deferred tax assets - net	4, 15	<b>2,005</b>	4,102
Other noncurrent assets - net	4, 11, 22, 24, 28, 29	<b>13,465</b>	7,538
<b>Total Noncurrent Assets</b>		<b>748,276</b>	694,676
		<b>P941,763</b>	P924,465
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Loans payable	12, 20, 27, 28, 29	<b>P51,450</b>	P23,950
Accounts payable and accrued expenses	13, 22, 23, 27, 28, 29	<b>11,200</b>	11,131
Income and other taxes payable	15	<b>750</b>	707
Subscriptions payable	7, 22, 28, 29	<b>1,444</b>	2,710
Dividends payable	22, 25, 27	<b>2,879</b>	3,291
Current maturities of long-term debt - net of debt issue costs	14, 27, 28, 29	<b>16,833</b>	159
<b>Total Current Liabilities</b>		<b>84,556</b>	41,948
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current maturities and debt issue costs	14, 27, 28, 29	<b>280,767</b>	261,223
Other noncurrent liabilities	22, 23, 27, 28, 29	<b>1,479</b>	2,414
<b>Total Noncurrent Liabilities</b>		<b>282,246</b>	263,637
		<b>366,802</b>	305,585
<b>Equity</b>			
Capital stock - common	16	<b>16,443</b>	16,443
Capital stock - preferred	16	<b>10,187</b>	10,187
Additional paid-in capital	16	<b>177,719</b>	177,719
Capital securities	16	<b>33,031</b>	33,031
Equity reserves	7, 24, 29	<b>1,663</b>	1,052
Retained earnings	16, 25	<b>480,281</b>	490,594
Treasury stock	16	<b>(144,363)</b>	(110,146)
<b>Total Equity</b>		<b>574,961</b>	618,880
		<b>P941,763</b>	P924,465

See Notes to the Separate Financial Statements.

**SAN MIGUEL CORPORATION**  
**SEPARATE STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Millions, Except Per Share Data)

	<i>Note</i>	2021	2020
<b>REVENUES</b>			
Dividend income	7	P14,713	P13,000
Sale of services		3,210	4,436
Interest income	21	1,875	3,229
Rent income	4, 10, 23	355	171
Gain (loss) on derivatives - net	29	65	(1,752)
Gain on sale of investments and others	7, 31	144	4,666
		<b>20,362</b>	<b>23,750</b>
<b>EXPENSES</b>			
Costs and expenses	17, 18, 19, 23	4,000	5,270
Interest expense and other financing charges	12, 14, 20, 23	10,755	12,618
Loss (gain) on foreign exchange - net	28	2,390	(1,912)
		<b>17,145</b>	<b>15,976</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>3,217</b>	<b>7,774</b>
<b>INCOME TAX EXPENSE</b>	15	<b>2,023</b>	<b>816</b>
<b>NET INCOME</b>		<b>P1,194</b>	<b>P6,958</b>
<b>Basic/Diluted Loss Per Common Share</b>	26	<b>(P2.93)</b>	<b>(P0.01)</b>

*See Notes to the Separate Financial Statements.*

**SAN MIGUEL CORPORATION**  
**SEPARATE STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Millions)

	<i>Note</i>	<b>2021</b>	2020
<b>NET INCOME</b>		<b>P1,194</b>	P6,958
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that will not be reclassified to profit or loss</b>			
Equity reserve for retirement plan	24	<b>764</b>	83
Income tax expense	15	<b>(108)</b>	(25)
		<b>656</b>	58
<b>Items that may be reclassified to profit or loss</b>			
Loss on cash flow hedges	29	<b>(1)</b>	(116)
Income tax benefit (expense)	15	<b>(36)</b>	35
		<b>(37)</b>	(81)
Net loss on financial assets at fair value through other comprehensive income	7	<b>(4)</b>	(170)
Income tax expense	15	<b>(4)</b>	(1)
		<b>(8)</b>	(171)
<b>OTHER COMPREHENSIVE INCOME (LOSS) - Net of tax</b>		<b>611</b>	(194)
<b>TOTAL COMPREHENSIVE INCOME - Net of tax</b>		<b>P1,805</b>	P6,764

*See Notes to the Separate Financial Statements.*

**SAN MIGUEL CORPORATION**  
**SEPARATE STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Millions)

	Note	Capital Securities					Equity Reserve					Total Equity	
		Capital Stock		Additional Paid-in Capital	Senior		Reserve for Retirement Plan	Hedging Reserve	Fair Value Reserve	Retained Earnings	Treasury Stock		
		Common	Preferred		Perpetual Capital Securities	Redeemable Perpetual Securities					Common		Preferred
<b>As at January 1, 2021</b>		<b>P16,443</b>	<b>P10,187</b>	<b>P177,719</b>	<b>P24,211</b>	<b>P8,820</b>	<b>P1,153</b>	<b>(P503)</b>	<b>P402</b>	<b>P490,594</b>	<b>(P67,093)</b>	<b>(P43,053)</b>	<b>P618,880</b>
Equity reserve for retirement plan	24	-	-	-	-	-	656	-	-	-	-	-	656
Net loss on cash flows hedges	29	-	-	-	-	-	-	(37)	-	-	-	-	(37)
Net loss on financial assets at fair value through other comprehensive income	7	-	-	-	-	-	-	-	(8)	-	-	-	(8)
Other comprehensive income (loss)		-	-	-	-	-	656	(37)	(8)	-	-	-	611
Net income		-	-	-	-	-	-	-	-	1,194	-	-	1,194
Total comprehensive income (loss)		-	-	-	-	-	656	(37)	(8)	1,194	-	-	1,805
Redemption of Subseries "2-C", Subseries "2-E" and Subseries "2-G" preferred shares	16	-	-	-	-	-	-	-	-	-	-	(34,217)	(34,217)
Cash dividends and distributions:	25	-	-	-	-	-	-	-	-	-	-	-	-
Common		-	-	-	-	-	-	-	-	(3,337)	-	-	(3,337)
Preferred	26	-	-	-	-	-	-	-	-	(6,002)	-	-	(6,002)
Senior perpetual capital securities	26	-	-	-	-	-	-	-	-	(1,804)	-	-	(1,804)
Redeemable perpetual securities	26	-	-	-	-	-	-	-	-	(364)	-	-	(364)
<b>As at December 31, 2021</b>		<b>P16,443</b>	<b>P10,187</b>	<b>P177,719</b>	<b>P24,211</b>	<b>P8,820</b>	<b>P1,809</b>	<b>(P540)</b>	<b>P394</b>	<b>P480,281</b>	<b>(P67,093)</b>	<b>(P77,270)</b>	<b>P574,961</b>
<b>As at January 1, 2020</b>		<b>P16,443</b>	<b>P10,187</b>	<b>P177,938</b>	<b>P -</b>	<b>P -</b>	<b>P1,095</b>	<b>(P422)</b>	<b>P573</b>	<b>P493,414</b>	<b>(P67,093)</b>	<b>(P49,190)</b>	<b>P582,945</b>
Equity reserve for retirement plan	24	-	-	-	-	-	58	-	-	-	-	-	58
Net loss on cash flows hedges	29	-	-	-	-	-	-	(81)	-	-	-	-	(81)
Net loss on financial assets at fair value through other comprehensive income	7	-	-	-	-	-	-	-	(171)	-	-	-	(171)
Other comprehensive income (loss)		-	-	-	-	-	58	(81)	(171)	-	-	-	(194)
Net income		-	-	-	-	-	-	-	-	6,958	-	-	6,958
Total comprehensive income (loss)		-	-	-	-	-	58	(81)	(171)	6,958	-	-	6,764
Issuance of senior perpetual capital securities	16	-	-	-	24,211	-	-	-	-	-	-	-	24,211
Issuance of redeemable perpetual securities	16	-	-	-	-	19,522	-	-	-	-	-	-	19,522
Purchase and cancellation of redeemable perpetual securities	16	-	-	-	-	(10,702)	-	-	-	(108)	-	-	(10,810)
Re-issuance of treasury shares - preferred	16	-	-	(219)	16	-	-	-	-	-	-	33,793	33,574
Redemption of Series "1" and Subseries "2-D" preferred shares	16	-	-	-	-	-	-	-	-	-	-	(27,656)	(27,656)
Cash dividends and distributions:	25	-	-	-	-	-	-	-	-	-	-	-	-
Common		-	-	-	-	-	-	-	-	(3,337)	-	-	(3,337)
Preferred	26	-	-	-	-	-	-	-	-	(6,052)	-	-	(6,052)
Redeemable perpetual securities	26	-	-	-	-	-	-	-	-	(281)	-	-	(281)
<b>As at December 31, 2020</b>		<b>P16,443</b>	<b>P10,187</b>	<b>P177,719</b>	<b>P24,211</b>	<b>P8,820</b>	<b>P1,153</b>	<b>(P503)</b>	<b>P402</b>	<b>P490,594</b>	<b>(P67,093)</b>	<b>(P43,053)</b>	<b>P618,880</b>

See Notes to the Separate Financial Statements.

**SAN MIGUEL CORPORATION**  
**SEPARATE STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
(In Millions)

	<i>Note</i>	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		<b>P3,217</b>	P7,774
Adjustments for:			
Interest expense and other financing charges	12, 14, 20, 23	<b>10,755</b>	12,618
Unrealized loss (gain) on foreign exchange - net		<b>5,380</b>	(2,838)
Gain on sale of investments and others	7, 31	<b>(144)</b>	(4,666)
Depreciation, amortization and others - net	18, 24	<b>(485)</b>	331
Interest income	21	<b>(1,875)</b>	(3,229)
Dividend income		<b>(14,713)</b>	(13,000)
Operating income (loss) before working capital changes		<b>2,135</b>	(3,010)
Changes in noncash current assets, certain current liabilities and others	27	<b>(3,030)</b>	(1,171)
Cash used in operations		<b>(895)</b>	(4,181)
Dividend received	7	<b>14,604</b>	13,000
Interest expense and other financing charges paid	20	<b>(9,545)</b>	(11,867)
Income taxes paid	15	<b>(74)</b>	(196)
Net cash flows provided by (used in) operating activities		<b>4,090</b>	(3,244)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Investments and advances	7	<b>(57,907)</b>	(36,837)
Property and equipment	8	<b>(160)</b>	(40)
Investment property	10	-	(4)
Proceeds from redemption of investment in preferred shares	7	<b>7,911</b>	-
Interest received		<b>1,395</b>	3,151
Proceeds from sale of intangible assets, investment property and others	7, 8, 10, 11	<b>149</b>	1
Increase in other noncurrent assets	11, 22	<b>(5,092)</b>	(722)
Net cash flows used in investing activities		<b>(53,704)</b>	(34,451)

*Forward*

	<b>Note</b>	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Short-term borrowings	27	<b>P260,200</b>	P428,400
Long-term borrowings	27	<b>56,133</b>	98,864
Payments of:			
Short-term borrowings	27	<b>(232,700)</b>	(449,200)
Long-term borrowings	27	<b>(31,691)</b>	(14,148)
Lease liabilities	27	<b>(59)</b>	(52)
Cash dividends and distributions paid	25, 27	<b>(11,919)</b>	(9,773)
Redemption of preferred shares	16	<b>(34,217)</b>	(27,656)
Proceeds from re-issuance of treasury shares	16	-	33,588
Proceeds from issuance of senior perpetual capital securities	16	-	24,211
Proceeds from the issuance of redeemable perpetual securities - net	16	-	8,712
Net cash flows provided by financing activities		<b>5,747</b>	92,946
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		<b>4,560</b>	<b>(7,785)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(39,307)</b>	47,466
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>135,816</b>	88,350
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P96,509</b>	P135,816

*See Notes to the Separate Financial Statements.*

## **SAN MIGUEL CORPORATION**

### **NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

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

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#### **1. Reporting Entity**

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

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

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

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

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

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#### **2. Basis of Preparation**

##### Statement of Compliance

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

The separate financial statements were approved and authorized for issue in accordance with a resolution by the BOD on March 10, 2022.



#### Basis of Measurement

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

<u>Items</u>	<u>Measurement Basis</u>
Derivative financial instruments	Fair value
Financial assets at fair value through other comprehensive income (FVOCI)	Fair value
Defined benefit retirement asset (liability)	Fair value of the plan assets less the present value of the defined benefit retirement obligation

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

#### Functional and Presentation Currency

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

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### **3. Significant Accounting Policies**

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

#### Adoption of Amended Standard

Effective January 1, 2021, the Company 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.

#### 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 separate financial statements. Unless otherwise indicated, none of these are expected to have a significant effect on the separate financial statements.

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

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

- Annual Improvements to PFRS Standards 2018-2020. This cycle of improvements contains amendments to four standards, of which the following are applicable to the Company:
  - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, *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.

The amendments are effective for annual reporting periods beginning 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, *Noncurrent 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 IAS 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 noncurrent.
- Additional disclosure requirements will apply to noncurrent 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 noncurrent 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.

#### Current versus Noncurrent Classification

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

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

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

### Financial Instruments

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

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

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

### Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company's derivative assets not designated as cash flow hedge are classified under this category (Notes 28 and 29).

#### Financial Liabilities

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

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

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

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

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

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

The Company's liabilities arising from its trade transactions or borrowings such as loans payable, accounts payable and accrued expenses, subscriptions payable, long-term debt and lease liabilities are included under this category (Notes 7, 12, 13, 14, 22, 23, 28 and 29).

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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



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

#### Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

The ECLs on financial assets at amortized cost are recognized as allowance for impairment losses against the gross carrying amount of the financial asset, with the resulting impairment losses (or reversals) recognized in the separate statements of income.

#### Classification of Financial Instruments between Liability and Equity

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

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

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

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

#### Offsetting Financial Instruments

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

### Derivative Financial Instruments and Hedge Accounting

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

#### *Freestanding Derivatives*

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

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

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

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

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

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

The Company has outstanding derivatives accounted for as a cash flow hedge as at December 31, 2021 and 2020 (Note 29).

#### *Embedded Derivatives*

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

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

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

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

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

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

The Company has not bifurcated any embedded derivatives as at December 31, 2021 and 2020.

#### Prepaid Expenses and Other Current Assets

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

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

#### Investments in Shares of Stock of Subsidiaries

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

A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

#### Property, Plant and Equipment

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

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

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

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

	Number of Years
Land improvements	5 - 50
Buildings and improvements	2 - 50
Equipment, furniture and fixtures	2 - 40
Leasehold improvements	5 - 50 or term of the lease, whichever is shorter

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

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

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

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

#### Leases

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

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

#### *Company as a Lessee*

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Buildings and improvements are depreciated over 10 years.

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

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

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

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

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

The Company applies the practical expedient 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 Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company assesses whether there is a lease modification.

#### *Company as a Lessor*

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

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

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

If an arrangement contains lease and non-lease components, the Company applies PFRS 15, *Revenue from Contracts with Customers* to allocate the consideration in the contract.

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

### Investment Property

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

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

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

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

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

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

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

### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the separate statements of income in the year in which the related expenditures are incurred.

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



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

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

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

#### Impairment of Non-financial Assets

The carrying amounts of investments and advances (excluding financial assets at FVOCI), property, plant and equipment, right-of-use of assets, investment property and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

### Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

### Provisions

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

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

#### 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 Company, and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the BOD of the Company.

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

##### *Additional Paid-in Capital*

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

#### Capital Securities

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

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

#### Retained Earnings

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

#### Treasury Shares

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

## Revenue

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

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

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

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

### *Revenue from Sale of Services*

Revenue from sale of services is recognized over time as the related services are rendered. Invoices are issued on a monthly basis and are usually payable within a 30-day period.

### *Revenue from Other Sources*

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

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

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

*Gain or Loss on Sale of Investments in Shares of Stock.* Gain or loss is recognized when the Company disposes of its investment in shares of stock of a subsidiary. Gain or loss is computed as the difference between the proceeds of the disposed investment and its carrying amount.

## 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.

### 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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Costs*

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

#### Foreign Currency Translations

Transactions in foreign currencies are initially recorded in the functional currency of the Company at exchange rates at the dates of the transactions.

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

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

Foreign currency differences arising on translation are recognized in the separate statements of income, except for differences arising on the translation of financial assets at FVOCI or qualifying cash flow hedges, which are recognized in other comprehensive income.

#### Taxes

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

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

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

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

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

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

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

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

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

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

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

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

*Value-added Tax (VAT)*. Revenues, expenses and assets are recognized net of the amount of VAT, except:

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

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

#### Related Parties

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

#### Basic and Diluted Earnings Per Common Share (EPS)

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

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

#### Contingencies

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

#### Events After the Reporting Date

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

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## **4. Use of Judgments, Estimates and Assumptions**

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

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

#### Judgments

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

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



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

Rent income recognized in the separate statements of income amounted to P355 and P171 in 2021 and 2020, respectively (Notes 10 and 23).

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

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

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

The Company's lease liabilities amounted to P537 and P596 as at December 31, 2021 and 2020, respectively (Notes 13, 23, 27, 28 and 29).

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

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

The Company uses its judgment in determining the classification of financial assets based on its business model in which assets are managed and their cash flow characteristics. The classification and fair values of financial assets and financial liabilities are presented in Note 29.

*Contingencies.* The Company is currently involved in various pending claims and lawsuits which could be decided in favor of or against the Company. The Company's estimate of the probable costs for the resolution of these pending claims and lawsuits has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Company currently does not believe that these pending claims and lawsuits will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 31).

#### Estimates and Assumptions

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

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

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

No receivables were written off as at December 31, 2021 and 2020 (Note 6). The allowance for impairment losses on receivables amounted to P7,269 as at December 31, 2021 and 2020. The carrying amount of receivables amounted to P91,323 and P88,562 as at December 31, 2021 and 2020, respectively (Note 6).

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

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

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

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

The Company has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Company only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2021 and 2020. The carrying amounts of other financial assets at amortized cost are as follows:

	<b>Note</b>	<b>2021</b>	2020
<b>Other Financial Assets at Amortized Cost</b>			
Cash and cash equivalents (excluding cash on hand)	5, 28,29	<b>P96,505</b>	P135,812
Noncurrent receivables - net (included under "Other noncurrent assets" account)	11, 28, 29	<b>8,353</b>	3,864

The allowance for impairment losses on noncurrent receivables (included under "Other noncurrent assets" account in the separate statements of financial position) amounted to P253 as at December 31, 2021 and 2020 (Note 11).

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

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

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

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

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

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Notes 7, 10, 24 and 29.

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

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

Property, plant and equipment, net of accumulated depreciation and amortization amounted to P1,250 and P1,162 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P1,755 and P1,691 as at December 31, 2021 and 2020, respectively (Note 8).

Right-of-use assets, net of accumulated depreciation and amortization amounted to P444 and P519 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of right-of-use assets amounted to P224 and P149 as at December 31, 2021 and 2020, respectively (Note 9).

Investment property, net of accumulated depreciation and amortization amounted to P779 and P790 as at December 31, 2021 and 2020, respectively. Accumulated depreciation and amortization of investment property amounted to P641 and P632 as at December 31, 2021 and 2020, respectively (Note 10).

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

Intangible assets with finite useful lives amounted to P165 and P108 as at December 31, 2021 and 2020, respectively. Accumulated amortization of intangible assets with finite useful lives amounted to P438 and P526 as at December 31, 2021 and 2020, respectively (Note 11).

*Realizability of Deferred Tax Assets.* The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets amounted to P2,005 and P4,102 as at December 31, 2021 and 2020, respectively (Note 15).

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

The Company assessed that its property, plant and equipment, right-of-use assets, investment property and intangible assets with finite useful lives are not impaired. Accumulated impairment losses on investments and advances (excluding financial assets at FVOCI) amounted to P2,633 as at December 31, 2021 and 2020 (Note 7).

The combined carrying amounts of investments and advances (excluding financial assets at FVOCI), property, plant and equipment, right-of-use assets, investment property and intangible assets with finite useful lives amounted to P648,295 and P592,595 as at December 31, 2021 and 2020, respectively (Notes 7, 8, 9, 10 and 11).

*Present Value of Defined Benefit Retirement Obligation.* The present value of the defined benefit retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 24 to the separate financial statements and include discount rate and salary increase rate.

The Company determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Company considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit retirement obligation are based in part on current market conditions.

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

The present value of defined benefit retirement obligation amounted to P1,898 and P2,204 as at December 31, 2021 and 2020, respectively (Note 24).

*Asset Retirement Obligation.* Determining ARO requires estimation of the costs of dismantling, installing and restoring leased properties to their original condition. The Company determined that there are no ARO as at December 31, 2021 and 2020.

## 5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<b>Note</b>	<b>2021</b>	2020
Cash in banks and on hand		<b>P10,444</b>	P45,790
Short-term investments		<b>86,065</b>	90,026
	<b>4, 28, 29</b>	<b>P96,509</b>	P135,816

Cash in banks earn interest at bank deposit rates. Short-term investments include demand deposits which can be withdrawn at any time depending on the immediate cash requirements of the Company and earn interest at short-term investment rates (Note 21).

## 6. Receivables

Receivables consist of:

	<b>Note</b>	<b>2021</b>	2020
Amounts owed by related parties	22, 24	<b>P75,725</b>	P74,308
Non-trade receivables		<b>22,867</b>	21,523
		<b>98,592</b>	95,831
Less allowance for impairment losses	4	<b>7,269</b>	7,269
	<b>4, 28, 29</b>	<b>P91,323</b>	P88,562

Non-trade receivables include interest receivable and security deposits.

Receivables are generally collectible on demand.

There were no movements in the allowance for impairment losses in 2021 and 2020.

## 7. Investments and Advances

Investments and advances consist of:

	<b>Note</b>	<b>2021</b>	2020
Investments in shares of stock of subsidiaries	4	<b>P639,356</b>	P578,389
Financial assets at FVOCI	28, 29	<b>84,676</b>	90,549
Advances for investment	4	<b>8,934</b>	14,260
		<b>732,966</b>	683,198
Less allowance for impairment losses	4	<b>2,633</b>	2,633
		<b>P730,333</b>	P680,565

## Investments in Shares of Stock of Subsidiaries

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

	Country of Incorporation	2021		2020	
		Effective Percentage of Ownership	Amount	Effective Percentage of Ownership	Amount
<b>Food and Beverage Business</b>					
San Miguel Food and Beverage, Inc. (SMFB)*	Philippines	88.76	P342,104	88.76	P342,104
Ginebra San Miguel Inc. (GSMI)**	Philippines	-	-	10.27	1,000
<b>Infrastructure Business</b>					
San Miguel Holdings Corp. doing business under the name and style of SMC Infrastructure (SMHC)	Philippines	100.00	136,750	100.00	106,750
San Miguel Aerocty Inc. (SMAI)	Philippines	25.81	7,586	-	-
SMC Infra Resources Inc.	Philippines	100.00	585	100.00	585
<b>Cement Business</b>					
San Miguel Equity Investments Inc. (SMEII)	Philippines	100.00	29,147	100.00	26,212
<b>Real Estate Business</b>					
San Miguel Properties, Inc. (SMPPI)	Philippines	99.97	24,314	99.96	20,939
Davana Heights Development Corporation (DHDC)	Philippines	100.00	3,946	100.00	3,721
<b>Fuel and Oil Business</b>					
Petron Corporation (Petron)	Philippines	68.26	15,260	68.26	15,260
SEA Refinery Corporation (SRC)	Philippines	100.00	1,921	100.00	1,921
<b>Packaging Business</b>					
San Miguel Yamamura Packaging Corporation (SMYPC)	Philippines	65.00	12,095	65.00	12,095
Mindanao Corrugated Fireboard, Inc.	Philippines	100.00	636	100.00	636
<b>Energy Business</b>					
SMC Global Power Holdings Corp. (SMC Global)	Philippines	100.00	4,570	100.00	4,570
<b>Others</b>					
San Miguel International Limited (SMIL) and San Miguel Holdings Limited (SMHL)***	British Virgin Islands (BVI)	100.00	20,328	100.00	20,328
SMC Equivest Corporation (SMCEC)	Philippines	100.00	7,008	100.00	1,113
San Miguel Integrated Logistics Services, Inc. (SMILSI)	Philippines	100.00	4,127	100.00	1,527
Silverides Holdings Corporation (SHC)	Philippines	100.00	3,901	100.00	3,901
SMC Shipping and Lighterage Corporation (SMCSLC)	Philippines	70.00	3,870	70.00	3,870
San Miguel Insurance Company Limited (SMICL)	BVI	100.00	3,170	100.00	-
SMC Asia Car Distributors Corp. (SMCACDC)	Philippines	65.00	325	65.00	325
Petrogen Insurance Corporation (Petrogen)	Philippines	92.05	3,000	-	-
Deity Holdings Corporation (DHC)	Philippines	98.44	2,810	98.44	2,810
Fonterra Verde Holdings Inc. (FVHI)	Philippines	100.00	2,403	100.00	5
World Summit Holdings Corporation (WHC)	Philippines	100.00	1,043	100.00	850
Challenger Aero Air Corp. (CAAC)	Philippines	100.00	949	100.00	949
One Verdana Holdings, Inc. (OVHI)	Philippines	100.00	513	100.00	5
Archen Technologies, Inc.	Philippines	100.00	300	100.00	300
Others - net	Philippines		6,695		6,613
			<b>639,356</b>		<b>578,389</b>
Less allowance for impairment losses on investment in shares of stock of subsidiaries			<b>2,633</b>		<b>2,633</b>
			<b>P636,723</b>		<b>P575,756</b>

\*Investment includes 4,242,549,130 common shares with par value of P1.00 per share in SMFB resulting from the tax free exchange of Investment in San Miguel Brewery Inc. (SMB) and GSMI covered by SMB Stock Certificate Nos. 0024, 02026, 03556 and 03557 and GSMI Stock Certificate Nos. 24, 012069 and 052567 which were acquired for the total cost of P8,076 and which have a total FMV as at the date of exchange amounting to P302,918.

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

\*\*\*The investment includes 10,958,015 common shares with par value of US\$1.00 per share of SMIL (P9,701) and 30,300,000 preferred shares with par value of US\$10.00 per share of SMHL (P10,627).

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

### 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 are 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.

## 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 Company executed a Subscription Agreement to subscribe to an additional 10,000,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P15,000 or P1,500.00 per common share. The Company paid P6,606 in 2020 as deposit for future stock subscription, 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 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 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.

In 2021, the Company paid P3,823 as deposit for future stock subscription presented as "Advances for investment" under "Investments and advances" account in the separate statement of financial position as at December 31, 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 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.

## Cement

- SMEII

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



On various dates in 2021, SMEII and the 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.

#### Real Estate

- SMPI

On various dates in 2020, SMPI and the Company executed Subscription Agreements to subscribe to a total of 241,393,750 common shares of SMPI for a total subscription price of P4,828 or P20.00 per common share. The 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 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 Company paid P3,018, while the balance amounting to P358 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2021.

- DHDC

On May 4 and November 26, 2020, DHDC and the Company executed Subscription Agreements to subscribe to a total of 90,500,000 common shares 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 Company executed a Subscription Agreement to subscribe to an additional 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 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 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.

#### Packaging

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

On September 12, 2019, the BOD of the 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 Company and SMYPC executed a Subscription Agreement whereby the Company agreed to subscribe to 3,901,011 common shares from the increase in authorized capital stock of SMYPC.

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

The investment in 3,901,011 common shares of stock in SMYPC resulting from the exchange of investment in SMYAC were acquired for a total cost of P1,320 and a total fair market value amounting to P4,173 as at the date of exchange, pursuant to the merger between SMYAC and SMYPC. The Company recognized a gain of P2,853 from the exchange of shares, presented as part of "Gain on sale of investments and others" account in the separate statement of income in 2020.

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.

#### Others

- SMHL

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

- 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 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 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 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 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.

- SMILSI

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

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

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

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. Consequently, the deposit for future stock subscription amounting to P2,600 was reclassified from "Advances for investment" to "Investment in subsidiaries" both under "Investment and advances" account in the separate statements of financial position as at December 31, 2021.

- SHC

On various dates in 2020, SHC and the Company executed Subscription Agreements whereby SMC agreed to subscribe to a total of 170,000,000 additional common shares from the unissued capital stock of SHC for a total subscription price of P680 or P4.00 per common share. The Company paid a total of P119 and P441 in 2021 and 2020, respectively.

The balance amounting to P120 and P239 is presented as part of "Subscription payable" account in the separate statements of financial position as at December 31, 2021 and 2020, respectively.

- 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 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 and approved by the Registrar of Companies of the Government of Bermuda on August 5, 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 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 ten common shares 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.

- 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 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 of the issuance of shares, Petrogen became a direct subsidiary of the Company.

- DHC

On various dates in 2020, DHC and the Company executed Subscription Agreements whereby SMC agreed to subscribe to a total of 400,500,000 additional common shares from the unissued capital stock of DHC for a total subscription price of P801 or P2.00 per common share. The Company paid a total of P238 and P520 in 2021 and 2020, respectively.

The balance amounting to P43 and P281 is presented as part of "Subscription payable" account in the separate statements of financial position as at December 31, 2021 and 2020, respectively.

- FVHI

On June 4, 2018, the BOD and stockholders of FVHI approved the increase in its authorized capital stock from P5 divided into 50,000 common shares into P1,000 divided into 10,000,000 common shares, both with a par value of P100.00 per common share. On July 25, 2018, as further amended on February 28, 2019, FVHI and the Company executed a Subscription Agreement for the Company to subscribe to 4,975,000 common shares from the increase in authorized capital stock of FVHI for a total subscription price of P995 or P200.00 per common share. On January 17, 2020, FVHI and the Company executed a Subscription Agreement for the Company to subscribe to an additional 4,975,000 common shares from the increase in authorized capital stock of FVHI for a total subscription price of P995 or P200.00 per common share. The Company paid P1,852 as deposit for future stock subscription as at December 31, 2020, while the remaining balance of the subscription price amounting to P138 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 December 1, 2020, and was approved on May 4, 2021.

On April 16, 2021, the BOD and stockholders of FVHI approved the additional increase in its authorized capital stock from P1,000 divided into 10,000,000 common shares to P1,750 divided into 17,500,000 common shares, both with a par value of P100.00 per common share. On the same date, the Company in a Subscription Agreement, subscribed to 1,875,000 common shares out of the proposed increase in authorized capital stock for a total subscription price of P375 or P200.00 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.

On December 6, 2021, FVHI and the Company, executed a Subscription Agreement to subscribe to an additional 163,500 common shares for a total subscription price of P33 or P200.00 per common share. The subscription price was fully paid in 2021.

- WHC

On December 15 and 27, 2021, WHC and the Company executed Subscription Agreements to subscribe to additional 96,500,000 common shares at a subscription price of P193 or P2.00 per common share. In 2021, the Company paid P142, while the balance amounting to P51 is presented as part of "Subscription payable" account in the separate statement of financial position as at December 31, 2021.

- CAAC

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

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was filed with the SEC on November 3, 2020 and was approved on November 6, 2020. Consequently, the deposit for future stock subscription amounting to P528 was reclassified from "Advances for investment" to "Investment in subsidiaries" both under "Investment and advances" account in the separate statement of financial position as at December 31, 2020, while the remaining balance of the subscription price amounting to P12 was fully paid by the Company in 2020.

- OVHI

On February 12, 2019, the BOD and stockholders of OVHI approved the increase in its authorized capital stock from P5 divided into 50,000 common shares into P1,000 divided into 10,000,000 common shares, both with a par value of P100.00 per common share. On the same date, OVHI and the Company executed a Subscription Agreement for the Company to subscribe to 2,487,500 common shares from the increase in authorized capital stock of OVHI for a total subscription price of P498 or P200.00 per common share. The Company paid P465 as deposit for future stock subscription as at December 31, 2020, while the remaining balance of the subscription price amounting to P33 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 18, 2021, and was approved on May 17, 2021.

On January 27, 2021, OVHI and the Company executed a Subscription Agreement to subscribe to an additional 51,000 common shares of OVHI for a subscription price of P10 or P200.00 per common share. The subscription price was fully paid in 2021.

#### Financial Assets at FVOCI

Financial assets at FVOCI, amounting to P84,676 and P90,549 as at December 31, 2021 and 2020, respectively, pertain to various investments in shares of stock carried at fair value (Note 4).

Financial assets at FVOCI mainly includes investments in the following:

- a. Common and preferred shares of stock of Top Frontier amounting to P35,737 and P35,781 as at December 31, 2021 and 2020, respectively.

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

Dividend income from the investment in preferred shares of stock of Top Frontier amounted to P1,063 and P1,328 in 2021 and 2020, respectively.

- b. RPS of SMC Global amounting to US\$650 or P33,794 as at December 31, 2021 and 2020.

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

Distributions from the investment in RPS of SMC Global amounted to P1,996 and P2,016 in 2021 and 2020, respectively.

- c. 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, CRL paid the redemption price of US\$123 or P6,181. The Company also received dividends of US\$32 or P1,594 presented as part of "Dividend income" account in the separate statement of income in 2021.

- d. RPS of Petron amounting to US\$236 or P11,714 as at December 31, 2021 and 2020.

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

- US\$6 subscribed on November 27, 2019

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

- US\$130 subscribed on July 22, 2020

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

- US\$100 subscribed on August 10, 2020.

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

Distributions from the investment in RPS of Petron amounted to P423 and P169 in 2021 and 2020, respectively.

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

- e. Redeemable preferred shares of stock of SMCACDC amounting to P2,770 and P3,500 as at December 31, 2021 and 2020, respectively.

On December 18, 2020, the BOD of SMCACDC approved the redemption of the 730,000 preferred shares held by the 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.

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

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

#### Advances for Investment

Advances for investment pertain to deposits made to certain companies which will be applied against future stock subscription.



## 8. Property, Plant and Equipment

Property, plant and equipment consist of:

	Land and Land Improvements	Buildings and Improvements	Equipment, Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
<b>Cost</b>						
January 1, 2020	P995	P246	P858	P605	P114	P2,818
Additions	-	-	-	-	40	40
Disposals and reclassifications	-	-	37	19	(61)	(5)
December 31, 2020	995	246	895	624	93	2,853
Additions	-	-	-	-	160	160
Disposals and reclassifications	-	-	10	1	(19)	(8)
<b>December 31, 2021</b>	<b>995</b>	<b>246</b>	<b>905</b>	<b>625</b>	<b>234</b>	<b>3,005</b>
<b>Accumulated Depreciation and Amortization</b>						
January 1, 2020	257	132	752	468	-	1,609
Depreciation and amortization	9	4	32	40	-	85
Disposals and reclassifications	-	-	(2)	(1)	-	(3)
December 31, 2020	266	136	782	507	-	1,691
Depreciation and amortization	6	5	26	28	-	65
Disposals and reclassifications	-	-	(1)	-	-	(1)
<b>December 31, 2021</b>	<b>272</b>	<b>141</b>	<b>807</b>	<b>535</b>	<b>-</b>	<b>1,755</b>
<b>Carrying Amount</b>						
December 31, 2020	P729	P110	P113	P117	P93	P1,162
<b>December 31, 2021</b>	<b>P723</b>	<b>P105</b>	<b>P98</b>	<b>P90</b>	<b>P234</b>	<b>P1,250</b>

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

Certain fully depreciated property, plant and equipment with aggregate costs of P1,496 and P1,222 as at December 31, 2021 and 2020, respectively, are still being used in the Company’s operations.

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P65 and P85 in 2021 and 2020, respectively (Notes 17 and 18).

## 9. Right-of-Use Asset

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

	<i>Note</i>	2021	2020
<b>Cost</b>			
Balance at beginning and end of year		<b>P668</b>	P668
<b>Accumulated Depreciation and Amortization</b>			
Balance at beginning of year		<b>149</b>	74
Depreciation and amortization	18	<b>75</b>	75
Balance at end of year		<b>224</b>	149
<b>Carrying Amount</b>		<b>P444</b>	P519

The Company recognized right-of-use asset for lease of building and improvements. The lease runs for a period of 10 years. The lease contains an option to renew the lease at the end of the lease term and is being subjected to reviews to reflect current market rentals. The renewal option provides operational flexibility in managing the leased asset portfolio and aligns the business needs of the Company.

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P75 in 2021 and 2020 (Notes 17 and 18).

## 10. Investment Property

The movements in investment property are as follows:

	Land and Land Improvements	Buildings and Improvements	Machinery and Equipment	Total
<b>Cost</b>				
January 1, 2020	P590	P408	P420	P1,418
Additions	-	4	-	4
December 31, 2020	590	412	420	1,422
Disposals and reclassifications	(2)	-	-	(2)
<b>December 31, 2021</b>	<b>588</b>	<b>412</b>	<b>420</b>	<b>1,420</b>
<b>Accumulated Depreciation and Amortization</b>				
January 1, 2020	28	176	419	623
Depreciation and amortization	1	8	-	9
December 31, 2020	29	184	419	632
Depreciation and amortization	1	8	-	9
<b>December 31, 2021</b>	<b>30</b>	<b>192</b>	<b>419</b>	<b>641</b>
<b>Carrying Amount</b>				
December 31, 2020	P561	P228	P1	P790
<b>December 31, 2021</b>	<b>P558</b>	<b>P220</b>	<b>P1</b>	<b>P779</b>

Depreciation and amortization expense, included as part of “Costs and expenses” account in the separate statements of income, amounted to P9 in 2021 and 2020 (Notes 17 and 18).

Rent income earned from investment property amounted to P355 and P171 in 2021 and 2020, respectively (Notes 4 and 23). The direct costs and expenses arising from the investment property that generated income amounted to P17 and P20 in 2021 and 2020, respectively.

The fair value of investment property amounting to P5,328 and P5,379 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 Company’s investment property on a regular basis.

#### Valuation Technique and Significant Unobservable Inputs

The valuation of investment property applied the following approaches:

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

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

*Income Approach.* The rental value of the subject property was determined using the Income Approach. Under the Income Approach, the market value of the property is determined first, and then proper capitalization rate is applied to arrive at its rental value. The rental value of the property is determined on the basis of what a prudent lessor or a prospective lessee are willing to pay for its use and occupancy considering the prevailing rental rates of similar property and/or rate of return a prudent lessor generally expects on the return on its investment. A study of current market conditions indicates that the return on capital for similar real estate investment range from 3.00% to 6.27%.

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## 11. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	<b>2021</b>	2020
Noncurrent receivables	22	<b>P8,606</b>	P4,117
Less allowance for impairment losses	4	<b>253</b>	253
	4, 28, 29	<b>8,353</b>	3,864
Retirement asset	24	<b>3,285</b>	2,538
Noncurrent derivatives asset		<b>584</b>	-
Intangible assets	4	<b>165</b>	108
Lease receivable	22	<b>59</b>	24
Others		<b>1,019</b>	1,004
		<b>P13,465</b>	P7,538

No impairment loss was recognized in 2021 and 2020.

The amounts owed by related parties, included as part of “Noncurrent receivables” account, amounted to P8,353 and P3,864 as at December 31, 2021 and 2020, respectively (Notes 22 and 28). As at December 31, 2021 and 2020, amounts owed by related parties also include lease receivable amounting to P52 and P20, respectively (Note 22).

Others consists mainly of option deposit paid by the Company amounting to P975. On February 17, 2017, the Company entered into an option agreement (the Agreement) with the non-controlling stockholder of SMCACDC for the grant to the Company of the option to acquire 35% ownership interest in SMCACDC. The option is exercisable within a period of two years from the execution of the Agreement or such other date as may be agreed upon by the parties in writing. The option deposit shall be applied as partial payment of the option exercise price upon exercise of the option. As at December 31, 2021, the Agreement was extended under the same terms and conditions.

The movements in intangible assets are as follows:

	Computer Software	Licenses	Project Development Cost	Total
<b>Cost</b>				
January 1, 2020	P354	P223	P125	P702
Additions	-	-	88	88
Disposals and reclassifications	4	(28)	(132)	(156)
December 31, 2020	358	195	81	634
Additions	-	-	196	196
Disposals and reclassifications	7	(107)	(127)	(227)
<b>December 31, 2021</b>	<b>365</b>	<b>88</b>	<b>150</b>	<b>603</b>
<b>Accumulated Amortization</b>				
January 1, 2020	347	161	-	508
Amortization	4	19	-	23
Disposals and reclassifications	(5)	-	-	(5)
December 31, 2020	346	180	-	526
Amortization	5	-	-	5
Disposals and reclassifications	-	(93)	-	(93)
<b>December 31, 2021</b>	<b>351</b>	<b>87</b>	<b>-</b>	<b>438</b>
<b>Carrying Amount</b>				
December 31, 2020	P12	P15	P81	P108
<b>December 31, 2021</b>	<b>P14</b>	<b>P1</b>	<b>P150</b>	<b>P165</b>

Amortization expense, included as part of "Costs and expenses" account in the separate statements of income, amounted to P5 and P23 in 2021 and 2020, respectively (Notes 17 and 18).

## 12. Loans Payable

Loans payable represent unsecured peso-denominated loans obtained from local banks amounting to P51,450 and P23,950 as at December 31, 2021 and 2020, respectively. Interest rates per annum for peso-denominated loans range from 2.20% to 2.40% and 3.00% to 3.50% in 2021 and 2020, respectively.

Interest expense on loans payable recognized in the separate statements of income amounted to P793 and P2,081 in 2021 and 2020, respectively (Note 20).

## 13. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2021	2020
Accrued expenses		<b>P10,424</b>	P10,113
Derivative liabilities	22, 28, 29	<b>197</b>	592
Amounts owed to related parties	4, 22	<b>559</b>	404
Deposits		<b>20</b>	22
	28, 29	<b>P11,200</b>	P11,131

## 14. Long-term Debt

Long-term debt consists of:

	2021	2020
Peso-denominated Bonds:		
Series A Bonds, fixed interest rate of 4.8243% maturing in 2022	<b>P6,680</b>	P6,663
Series B Bonds, fixed interest rate of 5.284% maturing in 2024	<b>7,265</b>	7,252
Series C Bonds, fixed interest rate of 5.7613% maturing in 2027	<b>5,982</b>	5,976
Series D Bonds, fixed interest rate of 5.1923% maturing in 2022	<b>9,993</b>	9,968
Series E Bonds, fixed interest rate of 6.25% maturing in 2023	<b>13,101</b>	13,067
Series F Bonds, fixed interest rate of 6.625% maturing in 2025	<b>2,422</b>	2,418
Series G Bonds, fixed interest rate of 7.125% maturing in 2028	<b>4,377</b>	4,373
Series H Bonds, fixed interest rate of 5.55% maturing in 2024	<b>9,928</b>	9,905
P60,000 fixed rate bonds (a)	<b>59,748</b>	59,622
Series I Bonds, fixed interest rate of 3.3832% maturing in 2027 (b)	<b>29,640</b>	-
Fixed rate bonds	<b>89,388</b>	59,622
Peso-denominated Term Notes:		
Fixed interest rate at 6.9375% with maturities up to 2026 (c)	<b>15,517</b>	15,661
Foreign currency-denominated Term Notes:		
Floating interest rate based on London Interbank Offered Rate (LIBOR) plus margin, maturing in 2024 (d)	<b>100,417</b>	93,914
Floating interest rate based LIBOR plus margin, maturing in 2026 (e)	<b>21,887</b>	-
Floating interest rate based on LIBOR plus margin, maturing in 2023 (f)	<b>20,278</b>	18,991
Floating interest rate based on LIBOR plus margin, maturing in 2023 (g)	<b>15,211</b>	14,261
Floating interest rate based on LIBOR plus margin, maturing in 2023 (h)	<b>15,194</b>	14,244
Floating interest rate based on LIBOR plus margin, maturing in 2023 (i)	<b>10,127</b>	9,494
Floating interest rate based on LIBOR plus margin, maturing in 2026 (j)	<b>5,020</b>	-
Floating interest rate based on LIBOR plus margin, with maturities up to 2024 (k)	<b>4,561</b>	10,489
Fixed interest rate of 4.875% (l)	<b>-</b>	24,706
	<b>297,600</b>	261,382
Less current maturities	<b>16,833</b>	159
	<b>P280,767</b>	P261,223

- a. The amount represents the first, second, third and fourth tranche of the P60,000 shelf registered fixed rate bonds issued by the Company amounting to P20,000, P10,000, P20,000 and P10,000, respectively. The Bonds were listed in the Philippine Dealing & Exchange Corp. (PDEX).
- The first tranche of the fixed rate bonds listed on March 1, 2017 amounting to P20,000 consists of: (i) five-year Series A Bonds, due in 2022 with an interest rate of 4.8243% per annum; (ii) seven-year Series B Bonds, due in 2024 with an interest rate of 5.284% per annum; and, (iii) 10-year Series C Bonds, due in 2027 with an interest rate of 5.7613% per annum. Interest is payable every 1st of March, June, September and December of each year.
  - The second tranche of the fixed rate bonds listed on April 7, 2017 amounting to P10,000 comprise of five-year Series D Bonds, due in 2022 with an interest rate of 5.1923% per annum. Interest is payable every 7th of January, April, July and October of each year.
  - The third tranche of the fixed rate bonds listed on March 19, 2018 amounting to P20,000, consist of: (i) five-year Series E Bonds, due in 2023 with an interest rate of 6.25% per annum; (ii) seven-year Series F Bonds, due in 2025 with an interest rate of 6.625% per annum; and, (iii) 10-year Series G Bonds, due in 2028 with an interest rate of 7.125% per annum. Interest is payable every 19th of March, June, September and December of each year.
  - The fourth tranche of the fixed rate bonds listed on October 4, 2019 amounting to P10,000 comprise of five-year Series H Bonds, due in 2024 with an interest rate of 5.55% per annum. Interest is payable every 4th of January, April, July and October of each year.

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

Unamortized debt issue costs amounted to 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 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 Company on June 24, 2019 from its term loan facility amounting to P16,000. The loan is amortized over seven years and is subject to a fixed interest rate of 6.9375% per annum payable quarterly. The proceeds were used for general corporate purposes.

The Company paid the scheduled amortizations amounting to 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 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 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 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 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 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 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 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 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 US\$210 and US\$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 Company. The Notes were listed on the same date in the Singapore Exchange Securities Trading Ltd. (SGX-ST), with an interest rate of 4.875% per annum payable every 26th of April and October of each year.

Proceeds from the Notes were used for refinancing of US\$ denominated loans, working capital and general corporate purposes.

In 2015, the Company purchased US\$284 out of US\$400 Notes offered for purchase in a tender offer.

The Company redeemed the Notes on April 26, 2021.

Unamortized debt issue costs amounted to P92 as at December 31, 2020.

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

The Company is in compliance with the covenants of the debt agreements as at December 31, 2021 and 2020.

Interest expense on long-term debt recognized in the separate statements of income amounted to P8,365 and P9,306 in 2021 and 2020, respectively (Note 20).

The movements in debt issue costs are as follows:

	<i>Note</i>	<b>2021</b>	2020
Balance at beginning of year		<b>P3,414</b>	P1,931
Additions	11	<b>1,558</b>	2,395
Amortization	20	<b>(1,136)</b>	(912)
Balance at end of year		<b>P3,836</b>	P3,414

### Repayment Schedule

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

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issue Costs</b>	<b>Net</b>
2022	<b>P16,843</b>	<b>P10</b>	<b>P16,833</b>
2023	<b>74,505</b>	<b>434</b>	<b>74,071</b>
2024	<b>124,042</b>	<b>2,071</b>	<b>121,971</b>
2025	<b>2,598</b>	<b>16</b>	<b>2,582</b>
2026 and thereafter	<b>83,448</b>	<b>1,305</b>	<b>82,143</b>
<b>Total</b>	<b>P301,436</b>	<b>P3,836</b>	<b>P297,600</b>

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

### **15. Income Taxes**

The components of income tax expense are shown below:

	<b>2021</b>	<b>2020</b>
Current	<b>P74</b>	P196
Deferred	<b>1,949</b>	620
	<b>P2,023</b>	P816

Deferred tax assets and liabilities arise from the following:

	<b>2021</b>	<b>2020</b>
<b>Items Recognized in Profit or Loss</b>		
Allowance for impairment losses	<b>P2,183</b>	P2,559
Unrealized foreign exchange loss (gain)	<b>(424)</b>	703
Retirement benefits	<b>(212)</b>	(260)
MCIT	<b>157</b>	249
Others	<b>781</b>	1,183
	<b>2,485</b>	4,434
<b>Items Recognized Directly in Other Comprehensive Income</b>		
Net gain on financial assets at FVOCI	<b>(57)</b>	(53)
Equity reserve for retirement plan	<b>(603)</b>	(495)
Net loss on cash flow hedges	<b>180</b>	216
	<b>(480)</b>	(332)
	<b>P2,005</b>	P4,102

The movements in deferred tax assets are as follows:

2021	Balance at January 1	Impact of CREATE Act	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Allowance for impairment losses	P2,559	(P376)	P -	P -	P2,183
Unrealized foreign exchange loss (gain)	703	(117)	(1,010)	-	(424)
MCIT	249	(26)	(66)	-	157
Retirement benefits	(260)	43	5	-	(212)
Net gain on financial assets at FVOCI	(53)	-	-	(4)	(57)
Equity reserve for retirement plan	(495)	83	-	(191)	(603)
Net loss on cash flow hedges	216	(36)	-	-	180
Others	1,183	(241)	(161)	-	781
	<b>P4,102</b>	<b>(P670)</b>	<b>(P1,232)</b>	<b>(P195)</b>	<b>P2,005</b>

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

As at December 31, 2021, the MCIT of the Company that can be claimed as deduction from corporate income tax due are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	Balance
2019	December 31, 2022	P79
2020	December 31, 2023	78
2021	December 31, 2024	42
		<b>P199</b>

As at December 31, 2021, the NOLCO of the Company that can be claimed as deduction from future taxable income are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	Balance
2019	December 31, 2022	P3,399
2020	December 31, 2025	3,715
2021	December 31, 2026	7,087
		<b>P14,201</b>

As at December 31, 2021, deferred tax asset in respect of NOLCO amounting to P3,550 has not been recognized because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

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

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

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

	<b>2021</b>	2020
Statutory income tax rate	<b>25.00%</b>	30.00%
Increase (decrease) in income tax rate resulting from:		
Nontaxable income	<b>(97.24%)</b>	(54.92%)
Income subject to final tax	<b>(0.52%)</b>	(0.64%)
Others	<b>135.64%</b>	36.06%
Effective income tax rate	<b>62.88%</b>	10.50%

*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, 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 Company 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 separate financial statements of the Company based on balances as at and for the year ended December 31, 2020, which was taken up upon the effectivity of the CREATE act, are as follows:

<b>ASSETS</b>	
Prepaid expenses and other current assets	P26
Deferred tax assets	(670)
	<b>(P644)</b>
<b>LIABILITIES AND EQUITY</b>	
Equity reserve	P47
Retained earnings	(691)
	<b>(P644)</b>
Income tax expense:	
Current	(P26)
Deferred	717
	<b>P691</b>

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## 16. Equity

### a. *Amendments to the Articles of Incorporation*

On July 23, 2009, during the annual stockholders' meeting of the Company, the stockholders approved the amendments to the Articles of Incorporation for the declassification of the common shares of the Company. The authorized capital stock of the Company amounting to P22,500 was divided into 2,034,000,000 Class "A" common shares, 1,356,000,000 Class "B" common shares with a par value of P5.00 per share and 1,110,000,000 Series "1" preferred shares with a par value of P5.00 per share, and defined the terms and features of the Series "1" preferred shares. The SEC approved the amendments to the Amended Articles of Incorporation of the Company on August 20, 2009.

During the April 18, 2012 and June 14, 2012 meetings of the BOD and stockholders of the Company, respectively, the BOD and stockholders approved the amendments to the Articles of Incorporation of the Company, to increase the authorized capital stock of the Company from P22,500 to P30,000 as follows: (a) the increase in the number of the common shares from 3,390,000,000 common shares to 3,790,000,000, or an increase of 400,000,000 common shares; and (b) the creation and issuance of 1,100,000,000 Series "2" preferred shares with a par value of P5.00 per share.

On September 21, 2012, the SEC approved the amendment to the Articles of Incorporation of the Company to increase the authorized capital stock, and consequently creating the Series "2" preferred shares.

On June 9, 2015, during the annual stockholders meeting of the Company, the stockholders approved the amendment to Article VII of the Amended Articles of Incorporation of the Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares, consisting of 691,099,686 Series "1" preferred treasury shares to Series "2" preferred treasury shares and 118,900,314 Series "1" preferred unissued shares to Series "2" preferred unissued shares. With the approved reclassification, the resulting distribution of the preferred shares of the Company was 300,000,000 for Series "1" preferred shares and 1,910,000,000 for Series "2" preferred shares. The stockholders also approved the issuance of the Series "2" preferred shares subject to the passage of Enabling Resolutions containing the details of the terms and conditions of the issuance.

The amendment to Article VII of the Amended Articles of Incorporation of the Company to reclassify 810,000,000 Series "1" preferred shares to Series "2" preferred shares was approved by the SEC on July 14, 2015.

### b. *Capital Stock*

#### Common Shares

On July 27, 2010, the BOD of the 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 Company were declassified and are considered as common shares without distinction, as approved by the SEC. Both are available to foreign investors, subject to the foreign ownership limit.

The Company has a total of 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:

	<b>2021</b>	2020
Issued shares	<b>3,288,649,125</b>	3,288,649,125
Less treasury shares	<b>904,752,537</b>	904,752,537
Issued and outstanding shares	<b>2,383,896,588</b>	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 Company at a fixed rate of 8% per annum calculated in respect of each Series "1" preferred share by reference to the Issue Price thereof in respect of each dividend period.

Series "1" preferred shares are non-voting except as provided for under the Corporation Code. The Series "1" preferred shares are redeemable in whole or in part, at the sole option of the Company, at the end of three years from the issue date at P75.00 plus any accumulated and unpaid cash dividends.

All shares rank equally with regard to the residual assets of the Company, except that holders of preferred shares participate only to the extent of the issue price of the shares plus any accumulated and unpaid cash dividends.

On July 23, 2009, the stockholders of the Company approved the Offer by the Company to exchange existing common shares of up to approximately 35% of the issued and outstanding capital stock of the Company with Series "1" preferred shares. The exchange ratio was one common share for one Series "1" preferred share and the qualified shareholders of record as at July 2, 2009, were vested with the right to participate on the exchange.

On October 5, 2009, the Company completed the exchange of 476,296,752 Class "A" common shares and 396,876,601 Class "B" common shares for Series "1" preferred shares.

On October 15, 2009, the BOD of the Company approved the issuance, through private placement, of up to 226,800,000 Series "1" preferred shares.

On December 22, 2009, the Company issued 97,333,000 Series "1" preferred shares to qualified buyers and by way of private placement to not more than 19 non-qualified buyers at the issue price of P75.00 per Series "1" preferred share.

On December 8, 2010 and October 3, 2011, the Company listed 873,173,353 and 97,333,000 Series "1" preferred shares worth P65,488 and P7,300, respectively.

On August 13, 2012, the BOD of the Company approved the redemption of Series "1" preferred shares at a redemption price of P75.00 per share.

On October 5, 2012, 970,506,353 Series "1" preferred shares were reverted to treasury.

On April 14, 2015, the Company reissued 279,406,667 Series "1" preferred shares held in treasury in the name of certain subscribers at P75.00 per share. The Series "1" preferred shares became tradable at the PSE beginning June 10, 2015.

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

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

The Company has 279,406,667 Series "1" preferred shares held in treasury as at December 31, 2021 and 2020.

The Company has no outstanding Series "1" preferred 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 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 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 Company redeemed its 721,012,400 Series "2" preferred shares - Subseries "2-A" at a redemption price of P75.00 per share plus any unpaid cash dividends. The Company paid P54,076 to the holders of Subseries "2-A" preferred shares. The redemption was approved by the BOD of the Company on August 20, 2015.

On September 23, 2019, the Company redeemed its 90,428,200 Series "2" preferred shares - Subseries "2-B" preferred shares at a redemption price of P75.00 per share. The Company paid P6,782 to the holders of Subseries "2-B" preferred shares. The redemption was approved by the BOD of the Company on September 12, 2019.

On September 21, 2021, the Company redeemed its outstanding 255,559,400 Series "2" preferred shares - Subseries "2-C" at a redemption price of P75.00 per share. The Company paid P19,167 to the holders of Subseries "2-C" preferred shares. The redemption was approved by the BOD of the Company on August 5, 2021.

*Subseries 2-D, Subseries 2-E and Subseries 2-F*

On September 21, 2015, the 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 Company redeemed its 89,333,400 Series “2” preferred shares - Subseries “2-D” at a redemption price of P75.00 per share plus any unpaid cash dividends. The Company paid P6,700 to the holders of Subseries “2-D” preferred shares. The redemption was approved by the BOD of the Company on August 6, 2020.

On September 21, 2021, the 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 Company paid P10,050 to the holders of Subseries “2-E” preferred shares. The redemption was approved by the BOD of the Company on August 5, 2021.

*Subseries 2-G, Subseries 2-H and Subseries 2-I*

On February 24, 2016, the BOD of the PSE approved the listing application of the Company of up to 975,571,800 shares of Series “2” preferred shares under shelf registration (the Shelf Registered Shares) and the offering of up to 400,000,000 shares of Series “2” preferred shares (the First Tranche) with a par value of P5.00 and an offer price of P75.00 per share. The SEC approved the Shelf Registered Shares and issued a permit to sell on March 8, 2016.

The Company offered the “First Tranche” of up to: (i) 280,000,000 shares of Series “2” preferred shares consisting of Subseries “2-G”, 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 Company’s follow-on offering of 280,000,000 Series “2” preferred shares, with an oversubscription option of 120,000,000 Series “2” preferred shares, the Company re-issued the Series “2” preferred shares held in treasury, as follows: (i) 244,432,686 Series “2” preferred shares; and (ii) 155,567,314 Subseries “2-A” preferred shares (collectively, the “Offer Shares”). The Series “2” preferred shares were Series “1” preferred shares held in treasury that were reclassified to Series “2” preferred shares on June 9, 2015.

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



On March 30, 2021, the 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 Company paid P5,000 to the holders of Subseries “2-G” preferred shares. The redemption was approved by the BOD of the Company on March 11, 2021.

*Subseries 2-J and Subseries 2-K*

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

The 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 at the PSE.

The 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 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 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 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:

	<b>2021</b>	2020
Common	<b>P67,093</b>	P67,093
Preferred	<b>77,270</b>	43,053
	<b>P144,363</b>	P110,146

### Common Shares

The Company has 904,752,537 common shares held in treasury as at December 31, 2021 and 2020.

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 ROP to file the appropriate action or proceeding to determine the legal right of the Company to the 25,450,000 treasury shares of the Company. On November 29, 2016, the Supreme Court denied with finality the motion for reconsideration of the Republic of the Philippines. To date, there is no such further action or proceeding has been filed by the ROP relating to the 25,450,000 Treasury Shares of the 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 Company completed the secondary offering of its common shares. The offer consists of 110,320,000 shares of stock of the Company consisting of 27,580,000 common shares from the treasury shares of the Company and 82,740,000 common shares held by Top Frontier, priced at P110.00 per share.
4. Also on May 5, 2011, US\$600 worth of exchangeable bonds of the Company sold to overseas investors were simultaneously listed at the SGX-ST. The exchangeable bonds have a maturity of three years, a coupon of 2% per annum and a conversion premium of 25% of the offer price. The exchangeable bonds are exchangeable for common shares to be re-issued from the treasury shares of the Company. The initial exchange price for the exchange of the exchangeable bonds into common shares is P137.50 per share.

On December 5, 2011, 765,451 common shares were delivered to the bondholders of the Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at an exchange price of P113.24 per share. Subsequently on December 8, 2011 and February 10 and 16, 2012, the delivered common shares of stock of the Company were transacted and crossed at the PSE via a special block sale in relation to the issuance of common shares pursuant to the US\$600 exchangeable bonds of the Company.

In 2014, 2013 and 2012, additional 1,077,573, 6,540,959 and 1,410,604 common shares, respectively, were delivered to the bondholders of the Company's exchangeable bonds who exercised their exchange rights under the terms and conditions of the bonds at exchange prices ranging from P80.44 to P113.24 per share. The additional common shares of stock of the Company were transacted and crossed at the PSE on various dates via special block sales.

A total of 9,794,587 common shares were issued to the bondholders of the Company's exchangeable bonds as at December 31, 2014.

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

In 2016, the Company discontinued the ESPP.

*d. Capital Securities*

Senior Perpetual Capital Securities

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

The Programme will be available for a medium term and will allow the Company to tap the financial market for funding through the issuance of securities, including but not limited to corporate notes, bonds, and perpetual securities and other similar instruments at different currencies (other than Philippine peso). The establishment of the Programme will give the Company ready access to funding and will give the Company the flexibility to fund its contemplated investments and projects such as the Metro Rail Transit 7 construction, the Manila International Airport, as well as the refinancing of its existing obligations and for other general corporate purposes. All instruments and securities that will be issued out of the Programme shall be exempt securities and shall not be required to be registered with the PSE.

On July 29, 2020, the Company issued US\$500 SPCS at an issue price of 100%, with an initial distribution rate of 5.5% per annum payable every January 29 and July 29 of each year. The securities were issued under the Company's US\$3,000 Medium Term Note and Securities Programme. The net proceeds 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 Company issued a total of P14,810 RPS at an issue price of 100%, with an initial rate of distribution of 5% per annum.

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

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

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

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

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

e. *Unappropriated Retained Earnings*

The unappropriated retained earnings of the Company is restricted in the amount of P67,093 in 2021 and 2020 representing the cost of common shares held in treasury.

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## 17. Costs and Expenses

Costs and expenses consist of:

	<i>Note</i>	<b>2021</b>	2020
Personnel	19	<b>P1,465</b>	P1,612
Professional fees		<b>919</b>	815
Contracted services		<b>623</b>	1,779
Travel, entertainment and representation		<b>477</b>	478
Rent, repairs and maintenance, supplies and utilities	23	<b>169</b>	186
Depreciation and amortization	18	<b>154</b>	192
Taxes and licenses		<b>140</b>	164
Others		<b>53</b>	44
		<b>P4,000</b>	<b>P5,270</b>

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## 18. Depreciation and Amortization

Depreciation and amortization arise from the following accounts:

	<i>Note</i>	<b>2021</b>	2020
Right-of-use asset	9	<b>P75</b>	P75
Property, plant and equipment	8	<b>65</b>	85
Investment property	10	<b>9</b>	9
Intangible assets	11	<b>5</b>	23
	17	<b>P154</b>	P192

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## 19. Personnel Expenses

Personnel expenses consist of:

	<i>Note</i>	<b>2021</b>	2020
Salaries and wages		<b>P1,190</b>	P1,301
Retirement costs	24	<b>108</b>	139
Other employee benefits		<b>167</b>	172
	17	<b>P1,465</b>	P1,612

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## 20. Interest Expense and Other Financing Charges

Interest expense and other financing charges consist of:

	<b>2021</b>	2020
Interest expense	<b>P9,206</b>	P11,439
Other financing charges	<b>1,549</b>	1,179
	<b>P10,755</b>	P12,618

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Amortization of debt issue costs, included as part of "Other financing charges", amounted to P1,136 and P912 in 2021 and 2020, respectively (Note 14).

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

	<i>Note</i>	<b>2021</b>	2020
Loans payable	12	<b>P793</b>	P2,081
Long-term debt	14	<b>8,365</b>	9,306
Lease liabilities	23	<b>48</b>	52
		<b>P9,206</b>	P11,439

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## 21. Interest Income

Interest income consists of:

	<i>Note</i>	<b>2021</b>	2020
Interest from short-term investments, cash in banks and others		<b>P1,319</b>	P2,734
Interest on amounts owed by related parties	22	<b>465</b>	390
Interest on actuarial	24	<b>91</b>	105
		<b>P1,875</b>	P3,229

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## 22. Related Party Disclosures

The Company, certain subsidiaries and their shareholders and associates purchase products and services from one another in the normal course of business. The Company requires approval of the BOD for related party transactions amounting to at least ten percent (10%) of the Company's 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	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
Parent Company	6	2021	P -	P -	P3,653	P -	On demand; non-interest bearing	Unsecured; no impairment
		2020	-	-	3,439	-		
	11	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	-		
	25	2021	-	-	-	551	Settled on dividend payment date	Unsecured
		2020	-	-	-	551		
Entities under Common Control Subsidiaries	6, 7, 11, 13	2021	8	-	41	-	On demand; non-interest bearing	Unsecured; no impairment
		2020	8	-	44	-		
		2021	3,690	478	57,908	2,467		
		2020	4,398	781	57,245	3,669		
Associates of Subsidiaries	6, 11	2021	277	-	11,809	-	On demand and 5 to 20 years; interest bearing	Unsecured; no impairment
		2020	201	-	6,940	-		
		2021	34	1	18	16		
		2020	28	-	6	-		
Retirement Plan	6, 21, 24	2021	23	-	4,433	-	On demand; non-interest bearing	Unsecured; no impairment
		2020	22	-	4,249	-		
		2021	188	-	3,233	-		
		2020	189	-	3,233	-		
		2021	P4,220	P479	P84,132	P3,034		
		2020	P4,846	P781	P78,193	P4,220		

- Purchases consist of purchase of power, products and services from related parties.
- Amounts owed by related parties consist of receivables, share in expenses, rental, interest and non-interest bearing non-trade receivables and management fees. Amounts owed by related parties also include prepaid rent amounting to P2 and P1 as at December 31, 2021 and 2020, presented as part of "Prepaid expenses and other current assets" account in the separate statements of financial position.

Amounts owed by related parties include interest bearing receivable from the Parent Company related to the remaining balance of the consideration for the sale of Clariden Holdings, Inc. (Clariden) amounting to P2,312 and the assignment of certain receivables of the Company amounting to P725.

- Amounts owed by the Parent Company amounting to P2,312:* On September 27, 2019, the parties agreed in writing that the second payment amounting to P1,099, plus 5.75% 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 under "Other noncurrent assets" account in the separate statements of financial position as at December 31, 2021 and 2020 (Note 11).

(ii) *Amounts owed by the 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 under “Other noncurrent assets” account in the separate statements of financial position as at December 31, 2021 and 2020 (Note 11).

In 2021, the Company provided interest bearing shareholder advances to SMILSI and SMC Metro Rail Transit 7 Inc. amounting to P2,250 and P2,239, respectively, subject to 3.00% interest rate per annum. The Company provided interest bearing shareholder advances to SMAI amounting to P817 in 2020, subject to interest rates per annum of 5.00% to 5.872% in 2021 and 5.00% in 2020. These amounts are included as part of noncurrent receivables under “Other noncurrent assets” account in the separate statements of financial position as at December 31, 2021 and 2020 (Note 11).

Interest income earned from the advances amounted to P425 and P390 in 2021 and 2020, respectively (Note 21).

- c. Amounts owed to related parties consist of payables, subscription of shares, insurance, advance rental, security deposits, dividends payable and commodity hedges. Derivative liability amounted to P22 and P30 as at December 31, 2021 and 2020, respectively, presented as part of “Accounts payable and accrued expenses” in the separate statements of financial position. Subscriptions payable amounted to P1,444 and P2,710 as at December 31, 2021 and 2020, respectively. Dividends payable amounted to P551 as at December 31, 2021 and 2020. Lease liabilities amounted to P457 and P525 as at December 31, 2021 and 2020, respectively, presented as “Other noncurrent liabilities” in the separate statements of financial position. Deferred rent income amounted to P1 as at December 31, 2021, presented as “Other noncurrent liabilities” in the separate statements of financial position.
- d. The compensation of key management personnel of the Company, by benefit type, follows:

	<b>Note</b>	<b>2021</b>	<b>2020</b>
Short-term employee benefits		<b>P232</b>	P268
Retirement benefits	24	<b>2</b>	2
		<b>P234</b>	P270

### 23. Leasing Agreements

#### *Company as Lessor*

The Company has entered into various property leases. These non-cancellable leases will expire up to year 2036. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

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

	<b>2021</b>	2020
Within one year	<b>P168</b>	P175
One to two years	<b>173</b>	36
Two to three years	<b>175</b>	35
Three to four years	<b>182</b>	33
Four to five years	<b>188</b>	35
More than five years	<b>950</b>	329
	<b>P1,837</b>	P643

Rent income recognized in the separate statements of income amounted to P355 and P171 in 2021 and 2020, respectively (Notes 4 and 10).

*Company as Lessee*

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

The minimum annual rental commitments under these non-cancellable leases, which are payable within one year from reporting date, amounted to P118 and P111 as at December 31, 2021 and 2020, respectively.

The Company recognized interest expense related to these leases amounting to P48 and P52 in 2021 and 2020, respectively (Note 20).

The Company also leases office facilities. The leases typically run for a period of one year. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals. The expenses relating to these short-term term leases and leases of low-value assets are recognized as rent expense in 2021 and 2020.

Rent expense, included as part of "Costs and expenses" account in the separate statements of income, amounted to P20 and P18 in 2021 and 2020, respectively (Note 17).

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## **24. Retirement Plan**

The Company has funded, noncontributory, defined benefit retirement plan (Retirement Plan) covering all of its permanent employees. The Retirement Plan of the Company pays out benefits based on final pay. Contributions and costs are determined in accordance with the actuarial studies made for the Retirement Plan. Annual cost is determined using the projected unit credit method. The latest actuarial valuation date is December 31, 2021. Valuations are obtained on a periodic basis.

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



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

	Fair Value of Plan Assets		Present Value of Defined Benefit Retirement Obligation		Effect of Asset Ceiling		Net Defined Benefit Retirement Asset	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Balance at beginning of year</b>	<b>P6,379</b>	P7,292	<b>(P2,204)</b>	(P3,056)	<b>(P1,637)</b>	(P1,747)	<b>P2,538</b>	P2,489
<b>Recognized in Profit or Loss</b>								
Service costs	-	-	<b>(108)</b>	(139)	-	-	<b>(108)</b>	(139)
Interest expense	-	-	<b>(83)</b>	(156)	-	-	<b>(83)</b>	(156)
Interest income	<b>236</b>	350	-	-	-	-	<b>236</b>	350
Interest on the effect of asset ceiling	-	-	-	-	<b>(62)</b>	(89)	<b>(62)</b>	(89)
	<b>236</b>	350	<b>(191)</b>	(295)	<b>(62)</b>	(89)	<b>(17)</b>	(34)
<b>Recognized in Other Comprehensive Income</b>								
Remeasurements								
Actuarial gains (losses) arising from:								
Experience adjustments	-	-	<b>80</b>	323	-	-	<b>80</b>	323
Changes in financial assumptions	-	-	<b>121</b>	(34)	-	-	<b>121</b>	(34)
Changes in demographic assumptions	-	-	-	1	-	-	-	1
Return on plan assets excluding interest income	<b>608</b>	(406)	-	-	-	-	<b>608</b>	(406)
Changes in the effect of asset ceiling	-	-	-	-	<b>(45)</b>	199	<b>(45)</b>	199
	<b>608</b>	(406)	<b>201</b>	290	<b>(45)</b>	199	<b>764</b>	83
<b>Others</b>								
Benefits paid	<b>(296)</b>	(857)	<b>296</b>	857	-	-	-	-
<b>Balance at end of year</b>	<b>P6,927</b>	P6,379	<b>(P1,898)</b>	(P2,204)	<b>(P1,744)</b>	(P1,637)	<b>P3,285</b>	P2,538

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

Retirement costs recognized as part of "Personnel expenses" under "Cost and expenses" account in the separate statements of income amounted to P108 and P139 in 2021 and 2020, respectively (Note 19).

The net interest on the defined benefit retirement asset recognized as part of "Interest income" account in the separate statements of income amounted to P91 and P105 in 2021 and 2020, respectively (Note 21).

Defined benefit retirement asset included as part of "Other noncurrent assets" account amounted to P3,285 and P2,538 as at December 31, 2021 and 2020, respectively (Note 11).

The carrying amounts of the Company's retirement fund approximate fair values as at December 31, 2021 and 2020.

The Company's plan assets consist of the following:

	<b>In Percentages</b>	
	<b>2021</b>	<b>2020</b>
Investments in marketable securities and shares of stock	<b>91.73</b>	93.04
Investments in pooled funds:		
Fixed income portfolio	<b>0.56</b>	0.72
Stock trading portfolio	<b>0.31</b>	0.31
Investments in real estate	<b>3.17</b>	3.44
Others	<b>4.23</b>	2.49

*Investments in Marketable Securities*

As at December 31, 2021 the plan assets include:

- 2,392,597 common shares of the Company with fair market value per share of P114.90;
- 1,917,608 common shares of Top Frontier with fair market value per share of P127.70;
- 5,817,380 common shares of SMFB with fair market value per share of P71.40;
- 5,085,800 common shares of SMB with fair market value per share of P20.00;
- 11,200,601 common shares of GSMI with fair market value per share of P113.80;
- 273,580,000 common shares of Petron with fair market value per share of P3.17;
- 300 common shares of SMPI with fair market value per share of P134.12; and
- investment in shares of stock of the PSE and other equity securities which amounted to P1,687.

As at December 31, 2020, the plan assets include:

- 2,690,007 common shares of the Company with fair market value per share of P128.10;

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

The fair market value per share of the above marketable securities is determined based on quoted market prices in active markets as at the reporting date (Note 3).

The Company's Retirement Plan recognized a gain (loss) on the investment in marketable securities of the Company, its subsidiaries and Top Frontier amounting to P482 and (P175) in 2021 and 2020, respectively.

Dividend income from the investment in shares of stock of the Company and its subsidiaries amounted to P64 and P58 in 2021 and 2020, respectively.

#### Investment in Shares of Stock

The Retirement Plan has 38.54% and 39.94% equity interest in Bank of Commerce (BOC), representing 432,626,860 common shares and 44,834,286 common shares, amounting to P10,064 and P9,952 as at December 31, 2021 and 2020, respectively. The Retirement Plan recognized its share in total comprehensive income of BOC amounting to P468 and P268 in 2021 and 2020, respectively.

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, the Retirement Plan's investment in BOC's common shares increased from 43,262,686 to 432,626,860 common shares.

On October 20, 2021, the Retirement Plan sold its investment in 1,571,600 common shares of BOC for a total consideration of P356.

#### Investments in Pooled Funds

Investments in pooled funds were established mainly to put together a portion of the funds of the Retirement Plans of the Company and its domestic subsidiaries to be able to draw, negotiate and obtain the best terms and financial deals for the investments resulting from big volume transactions.

The Board of Trustees approved the percentage of asset to be allocated to fixed income instruments and equities. The Retirement Plan has set maximum exposure limits for each type of permissible investments in marketable securities and deposit instruments. The Board of Trustees may, from time to time, in the exercise of its reasonable discretion and taking into account existing investment opportunities, review and revise such allocation and limits.

Investment income and expenses are allocated to the plan based on its pro-rata share in net assets of the pooled funds. The Retirement Plan's interests in the net assets of the pooled funds were 3.37% and 3.49% of fixed income portfolio as at December 31, 2021 and 2020, respectively and 8.34% and 5.83% of stock trading portfolio as at December 31, 2021 and 2020, respectively.

Approximately 2.27% and 2.31% of the Retirement Plan's investment in fixed income portfolio represents investment in shares of stock of the Company and its subsidiaries as at December 31, 2021 and 2020, respectively.

Approximately 5.44% and 4.38% of the Retirement Plan's investment in stock trading portfolio represents investment in shares of stock of the Company and its subsidiaries as at December 31, 2021 and 2020, respectively.

#### Investments in Real Estate

The Retirement Plan has investments in real estate properties as at December 31, 2021 and 2020. The fair value of investment property amounted to P516 as at December 31, 2021 and 2020.

#### Others

Others include the Retirement Plan's investment in trust account, cash and cash equivalents and receivables which earn interest. Investment in trust account represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds.

The Board of Trustees reviews the level of funding required for the retirement fund. Such a review includes the asset-liability matching (ALM) strategy and investment risk management policy. The Company's ALM objective is to match maturities of the plan assets to the defined benefit retirement obligation as they fall due. The Company monitors how the duration and expected yield of the investments are matching the expected cash outflows arising from the retirement benefit obligation.

The Company is not expected to contribute to its defined benefit retirement plan in 2022.

The Retirement Plan exposes the Company to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk as follows:

*Investment and Interest Rate Risks.* The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation. However, this will be partially offset by an increase in the return on the Retirement Plan's investments and if the return on plan asset falls below this rate, it will create a deficit in the Retirement Plan. Due to the long-term nature of the defined benefit retirement obligation, a level of continuing equity investments is an appropriate element of the long-term strategy of the Company to manage the Retirement Plan efficiently.

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

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

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

	<b>In Percentages</b>	
	<b>2021</b>	<b>2020</b>
Discount rate	<b>5.02</b>	3.78
Salary increase rate	<b>4.00</b>	4.00

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefit retirement obligation is 5.5 years and 5 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:

	<b>Defined Benefit Retirement Obligation</b>			
	<b>2021</b>		<b>2020</b>	
	<b>1 Percent Increase</b>	<b>1 Percent Decrease</b>	1 Percent Increase	1 Percent Decrease
Discount rate	<b>(P85)</b>	<b>P96</b>	(P102)	P117
Salary increase rate	<b>96</b>	<b>(86)</b>	116	(103)

The Company has advances to and receivables from the Retirement Plan 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 "Receivables" account in the separate statements of financial position (Note 6). Portion of the advances are subject to 5.75% interest rate per annum in 2021 and 2020. Interest income earned from the advances amounted to P188 and P189 in 2021 and 2020, respectively (Note 21).

Transactions with the Retirement Plan 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 Company has not made any provision for impairment losses relating to the receivables from the Retirement Plan in 2021 and 2020.

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## 25. Cash Dividends and Distributions

### Cash Dividends

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

### 2021

<b>Class of Shares</b>	<b>Date of Declaration</b>	<b>Date of Record</b>	<b>Date of Payment</b>	<b>Dividend per Share</b>
Common	March 11, 2021	April 5, 2021	April 30, 2021	<b>P0.35</b>
	June 8, 2021	July 2, 2021	July 28, 2021	<b>0.35</b>
	September 9, 2021	October 8, 2021	October 29, 2021	<b>0.35</b>
	December 2, 2021	January 4, 2022	January 21, 2022	<b>0.35</b>
Preferred SMC2C	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.50</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>1.50</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>1.50</b>
SMC2E	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.18603125</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>1.18603125</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>1.18603125</b>
SMC2F	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.27635</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>1.27635</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>1.27635</b>
	November 11, 2021	December 21, 2021	January 7, 2022	<b>1.27635</b>
SMC2G	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.23361875</b>
SMC2H	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.1854125</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>1.1854125</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>1.1854125</b>
	November 11, 2021	December 21, 2021	January 7, 2022	<b>1.1854125</b>
SMC2I	January 21, 2021	March 19, 2021	April 5, 2021	<b>1.18790625</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>1.18790625</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>1.18790625</b>
	November 11, 2021	December 21, 2021	January 7, 2022	<b>1.18790625</b>
SMC2J	January 21, 2021	March 19, 2021	April 5, 2021	<b>0.890625</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>0.890625</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>0.890625</b>
	November 11, 2021	December 21, 2021	January 7, 2022	<b>0.890625</b>
SMC2K	January 21, 2021	March 19, 2021	April 5, 2021	<b>0.84375</b>
	May 6, 2021	June 21, 2021	July 2, 2021	<b>0.84375</b>
	August 5, 2021	September 21, 2021	October 1, 2021	<b>0.84375</b>
	November 11, 2021	December 21, 2021	January 7, 2022	<b>0.84375</b>

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 SMC P1	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
SMC2I	January 23, 2020	March 20, 2020	April 3, 2020	1.18790625
	May 28, 2020	June 19, 2020	July 3, 2020	1.18790625
	August 6, 2020	September 21, 2020	October 5, 2020	1.18790625
	November 5, 2020	December 18, 2020	January 8, 2021	1.18790625
SMC2J	November 5, 2020	December 18, 2020	January 8, 2021	0.890625

On February 10, 2022, the BOD of the 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 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 Company paid P364 and P1,804 to the holders of RPS and SCPS, respectively, in 2021 and P281 to the holders of RPS in 2020, as distributions in accordance with the terms and conditions of their respective separate subscription agreements with the Company.

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## 26. Basic/Diluted Earnings Per Share

Basic/diluted EPS is computed as follows:

	<b>2021</b>	2020
Net income	<b>P1,194</b>	P6,958
Dividends on preferred shares	<b>(6,002)</b>	(6,083)
Distributions to capital securities	<b>(2,168)</b>	(906)
Net loss attributable to common shareholders (a)	<b>(P6,976)</b>	(P31)
Weighted average number of common shares outstanding (in millions) - basic (b)	<b>2,384</b>	2,384
Basis/diluted loss per common share (a/b)	<b>(P2.93)</b>	(P0.01)

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## 27. Supplemental Cash Flow Information

Supplemental information with respect to the separate statements of cash flows is presented below:

- a. Changes in noncash current assets, certain current liabilities and others are as follows (amounts reflect actual cash flows rather than increases or decreases of the accounts in the separate statements of financial position):

	<b>2021</b>	2020
Receivables	<b>(P1,563)</b>	(P1,835)
Prepaid expenses and other current assets	<b>(245)</b>	(256)
Accounts payable and accrued expenses	<b>(1,264)</b>	812
Income and other taxes payable and others	<b>42</b>	108
	<b>(P3,030)</b>	(P1,171)



b. Changes in liabilities arising from financing activities

	Loans Payable	Long-term Debt	Dividends Payable	Lease Liabilities
<b>Balance at January 1, 2021</b>	<b>P23,950</b>	<b>P261,382</b>	<b>P3,291</b>	<b>P596</b>
<b>Changes from Financing Activities</b>				
Proceeds from borrowings	260,200	56,133	-	-
Payments of borrowings	(232,700)	(31,691)	-	-
Cash dividends and distributions paid	-	-	(11,919)	-
Payments of lease liabilities	-	-	-	(59)
<b>Total Change from Financing Activities</b>	<b>27,500</b>	<b>24,442</b>	<b>(11,919)</b>	<b>(59)</b>
Effect of changes in foreign exchange rates	-	10,640	-	-
Cash dividends and distributions declared	-	-	11,507	-
Other changes	-	1,136	-	-
	-	11,776	11,507	-
<b>Balance at December 31, 2021</b>	<b>P51,450</b>	<b>P297,600</b>	<b>P2,879</b>	<b>P537</b>
	Loans Payable	Long-term Debt	Dividends Payable	Lease Liabilities
<b>Balance at January 1, 2020</b>	<b>P44,750</b>	<b>P188,620</b>	<b>P3,394</b>	<b>P648</b>
<b>Changes from Financing Activities</b>				
Proceeds from borrowings	428,400	98,864	-	-
Payments of borrowings	(449,200)	(14,148)	-	-
Cash dividends and distributions paid	-	-	(9,773)	-
Payments of lease liabilities	-	-	-	(52)
<b>Total Change from Financing Activities</b>	<b>(20,800)</b>	<b>84,716</b>	<b>(9,773)</b>	<b>(52)</b>
Effect of changes in foreign exchange rates	-	(11,251)	-	-
Cash dividends and distributions declared	-	-	9,670	-
Other changes	-	(703)	-	-
	-	(11,954)	9,670	-
<b>Balance at December 31, 2020</b>	<b>P23,950</b>	<b>P261,382</b>	<b>P3,291</b>	<b>P596</b>

## 28. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company has significant exposure to the following financial risks primarily from its use of financial instruments:

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

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

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

The risk management policies of the Company are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD constituted the Audit and Risk Oversight Committee to assist the BOD in fulfilling its oversight responsibility of the Company's corporate governance process relating to the: a) quality and integrity of the separate financial statements and financial reporting process and the systems of internal accounting and financial controls; b) performance of the internal auditors; c) annual independent audit of the separate financial statements, the engagement of the independent auditors and the evaluation of the independent auditors' qualifications, independence and performance; d) compliance with tax, legal and regulatory requirements; e) evaluation of management's process to assess and manage the enterprise risk issues; and f) fulfillment of the other responsibilities set out by the BOD. The Audit and Risk Oversight Committee shall prepare such reports as may be necessary to document the activities of the committee in the performance of its functions and duties. Such reports shall be included in the annual report of the Company and other corporate disclosures as may be required by the SEC and/or the PSE.

The Audit and Risk Oversight Committee also oversees how management monitors compliance with the risk management policies and procedures of the Company and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit assists the Audit and Risk Oversight Committee in monitoring and evaluating the effectiveness of the risk management and governance processes of the Company. Internal Audit undertakes both regular and special reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Oversight Committee.

### Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Company's exposure to changes in interest rates relates primarily to long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Company to cash flow interest rate risk.

The Company manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. The management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Company is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Company invests only in high-quality securities while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Company aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Company's financial instruments to various standard and non-standard interest rate scenarios.

The Company uses interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Company applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities, and notional amounts. The Company assesses whether the derivative designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

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

- the effect of the counterparty's and the Company's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- changes in the timing of the hedged transactions.

## Interest Rate Risk Table

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

December 31, 2021	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
<b>Fixed Rate</b>							
Philippine peso-denominated	<b>P16,843</b>	<b>P13,306</b>	<b>P17,454</b>	<b>P2,598</b>	<b>P14,960</b>	<b>P40,439</b>	<b>P105,600</b>
Interest rate	4.8243% - 6.9375%	6.25% - 6.9375%	5.284% - 6.9375%	6.625% - 6.9375%	6.9375%	3.3832% - 7.125%	-
<b>Floating Rate</b>							
Foreign currency-denominated (expressed in Philippine peso)	-	<b>61,199</b>	<b>106,588</b>	-	<b>28,049</b>	-	<b>195,836</b>
Interest rate	-	LIBOR + margin	LIBOR + margin	-	LIBOR + margin	-	-
	<b>P16,843</b>	<b>P74,505</b>	<b>P124,042</b>	<b>P2,598</b>	<b>P43,009</b>	<b>P40,439</b>	<b>P301,436</b>
<b>December 31, 2020</b>	<b>&lt;1 Year</b>	<b>1-2 Years</b>	<b>&gt;2-3 Years</b>	<b>&gt;3-4 Years</b>	<b>&gt;4-5 Years</b>	<b>&gt;5 Years</b>	<b>Total</b>
<b>Fixed Rate</b>							
Philippine peso-denominated	<b>P160</b>	<b>P16,843</b>	<b>P13,306</b>	<b>P17,454</b>	<b>P2,599</b>	<b>P25,398</b>	<b>P75,760</b>
Interest rate	6.9375%	4.8243% - 6.9375%	6.25% - 6.9375%	5.284% - 6.9375%	6.25% - 6.9375%	5.7613% - 7.125%	-
<b>Foreign currency-denominated (expressed in Philippine peso)</b>							
Interest rate	-	-	24,798	-	-	-	24,798
	-	-	4.875%	-	-	-	-
<b>Floating Rate</b>							
Foreign currency-denominated (expressed in Philippine peso)	-	<b>6,243</b>	<b>57,628</b>	<b>99,665</b>	<b>702</b>	-	<b>164,238</b>
Interest rate	-	LIBOR + margin	LIBOR + margin	LIBOR + margin	LIBOR + margin	-	-
	<b>P160</b>	<b>P23,086</b>	<b>P95,732</b>	<b>P117,119</b>	<b>P3,301</b>	<b>P25,398</b>	<b>P264,796</b>

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Company's profit before tax (through the impact on floating rate borrowings) by P1,958 and P1,642 in 2021 and 2020, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Company's other comprehensive income.

### Foreign Currency Risk

The functional currency is the Philippine peso, which is the denomination of the bulk of the Company's transactions. The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Company. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity. The Company enters into foreign currency hedges using a combination of non-derivative and derivative instruments such as foreign currency forwards, options or swaps to manage its foreign currency risk exposure.

Short-term currency forward contracts (deliverable and non-deliverable) and options are entered into to manage foreign currency risks arising from importations, revenue and expense transactions, and other foreign currency-denominated obligations. Currency swaps are entered into to manage foreign currency risks relating to long-term foreign currency-denominated borrowings.

Certain derivative contracts are designated as cash flow hedges. The Company applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of the cash flows. The Company assesses whether the derivatives designated in the hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

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

- the effect of the counterparty's and the Company's own credit risk on the fair value of the derivative contracts, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in foreign exchange rates; and
- changes in the timing of the hedged transactions.

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

	<b>December 31, 2021</b>		December 31, 2020	
	<b>US Dollar</b>	<b>Peso Equivalent</b>	US Dollar	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	<b>US\$1,686</b>	<b>P85,940</b>	US\$2,566	P123,236
Receivables	<b>234</b>	<b>11,948</b>	230	11,065
	<b>1,920</b>	<b>97,888</b>	2,796	134,301
<b>Liabilities</b>				
Accounts payable and accrued expenses	<b>(1)</b>	<b>(27)</b>	(5)	(235)
Long-term debt	<b>(3,840)</b>	<b>(195,836)</b>	(3,936)	(189,036)
	<b>(3,841)</b>	<b>(195,863)</b>	(3,941)	(189,271)
<b>Net Foreign Currency-denominated Monetary Liabilities</b>	<b>(US\$1,921)</b>	<b>(P97,975)</b>	(US\$1,145)	(P54,970)

The Company reported net loss (gains) on foreign exchange amounting to P2,390 and (P1,912) in 2021 and 2020, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movements of the Philippine peso against the US dollar as shown in the following table:

	<b>US Dollar to Philippine Peso</b>
<b>December 31, 2021</b>	<b>51.00</b>
December 31, 2020	48.02

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Company's financial instruments to various foreign currency exchange rate scenarios.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Company's other comprehensive income.

	December 31, 2021		December 31, 2020	
	Effect on Income before Income Tax		Effect on Income before Income Tax	
	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	(P1,686)	P1,686	(P2,566)	P2,566
Receivables	(234)	234	(230)	230
	(1,920)	1,920	(2,796)	2,796
Accounts payable and accrued expenses	1	(1)	5	(5)
Long-term debt	3,840	(3,840)	3,936	(3,936)
	3,841	(3,841)	3,941	(3,941)
	P1,921	(P1,921)	P1,145	(P1,145)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's foreign currency risk.

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

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

#### Liquidity Risk

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

The Company's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Company constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary. The Company also uses derivative instruments such as forwards and swaps to manage liquidity.

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

December 31, 2021	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years
<b>Financial Assets</b>					
Cash and cash equivalents	P96,509	P96,509	P96,509	P -	P -
Receivables - net	91,323	91,323	91,323	-	-
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	615	615	31	-	584
Financial assets at FVOCI (included under "Investments and advances - net" account)	84,676	84,676	-	-	84,676
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	8,353	8,353	-	-	8,353
<b>Financial Liabilities</b>					
Loans payable	51,450	51,507	51,507	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	10,837	10,837	10,837	-	-
Subscriptions payable	1,444	1,444	1,444	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	751	751	33	-	718
Long-term debt - net of debt issue costs (including current maturities)	297,600	326,532	24,155	80,636	221,741
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	537	690	109	113	468
<hr/>					
December 31, 2020	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years
<b>Financial Assets</b>					
Cash and cash equivalents	P135,816	P135,816	P135,816	P -	P -
Receivables - net	88,562	88,562	88,562	-	-
Derivative assets (included under "Prepaid expenses and other current assets" account)	69	69	69	-	-
Financial assets at FVOCI (included under "Investments and advances - net" account)	90,549	90,549	-	-	90,549
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	3,864	3,864	-	-	3,864
<b>Financial Liabilities</b>					
Loans payable	23,950	23,965	23,965	-	-
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	10,415	10,415	10,415	-	-
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	2,467	2,467	592	-	1,875
Subscriptions payable	2,710	2,710	2,710	-	-
Long-term debt - net of debt issue costs (including current maturities)	261,382	291,471	8,023	30,233	253,215
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	596	797	106	110	581

### Credit Risk

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

The Company has regular internal control reviews to monitor the granting of credit and management of credit exposures.

### Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's 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 Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the standard payment and delivery terms and conditions are offered. The Company ensures that sales on account are made to customers with appropriate credit history. The Company has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Company only on a prepayment basis.

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

The table below presents the Company's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired are separately presented.

December 31, 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)	P96,505	P -	P -	P -	P -	P96,505
Receivables	91,323	-	7,269	-	-	98,592
Derivative assets	-	-	-	31	584	615
Noncurrent receivables	-	8,353	253	-	-	8,606
	P187,828	P8,353	P7,522	P31	P584	P204,318

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

The aging of receivables is as follows:

	December 31, 2021			December 31, 2020		
	Amounts Owed by Related Parties	Non-trade Receivables	Total	Amounts Owed by Related Parties	Non-trade Receivables	Total
Current	P72,950	P18,373	P91,323	P71,533	P17,029	P88,562
Over 90 days past due	2,775	4,494	7,269	2,775	4,494	7,269
	P75,725	P22,867	P98,592	P74,308	P21,523	P95,831



Majority of the receivables pertain to related party accounts that are not impaired, and are collectible. The Company computes impairment loss on receivables based on past collection experience, current circumstances and the impact of future economic conditions, if any, available at the reporting period (Note 4). There are no significant changes in the credit quality of the counterparties during the year.

#### Credit Quality

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

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

High grade includes deposits or placements with reputable banks and companies with good credit standing. High grade financial assets include cash and cash equivalents and derivative assets, collectively amounting to P97,120 and P135,881 as at December 31, 2021 and 2020, respectively.

Standard grade pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and The Company's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include receivables and noncurrent receivables, collectively amounting to P107,198 and P99,948 as at December 31, 2021 and 2020, respectively.

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

#### Other Market Price Risk

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

#### Capital Management

The Company maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

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

The Company monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the separate statements of financial position.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Company's business, operation and industry.

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

The Company is not subject to externally imposed capital requirement.

## 29. Financial Assets and Financial Liabilities

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

	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash and cash equivalents	<b>P96,509</b>	<b>P96,509</b>	P135,816	P135,816
Receivables - net	<b>91,323</b>	<b>91,323</b>	88,562	88,562
Derivative assets (included under "Prepaid expenses and other current assets" and "Other noncurrent assets" accounts)	<b>615</b>	<b>615</b>	69	69
Financial assets at FVOCI (included under "Investments and advances - net" account)	<b>84,676</b>	<b>84,676</b>	90,549	90,549
Noncurrent receivables - net (included under "Other noncurrent assets - net" account)	<b>8,353</b>	<b>8,353</b>	3,864	3,864
<b>Financial Liabilities</b>				
Loans payable	<b>51,450</b>	<b>51,450</b>	23,950	23,950
Accounts payable and accrued expenses (excluding derivative liabilities, deferred rent and lease liabilities)	<b>10,837</b>	<b>10,837</b>	10,415	10,415
Subscriptions payable	<b>1,444</b>	<b>1,444</b>	2,710	2,710
Derivative liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	<b>751</b>	<b>751</b>	2,467	2,467
Long-term debt - net of debt issue costs (including current maturities)	<b>297,600</b>	<b>302,006</b>	261,382	274,675
Lease liabilities (included under "Accounts payable and accrued expenses" and "Other noncurrent liabilities" accounts)	<b>537</b>	<b>537</b>	596	596

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

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

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

*Financial Assets at FVOCI.* The fair values of publicly traded equity instruments are based on quoted market prices in an active market. For equity instruments with no quoted market prices, a reasonable estimate of their fair values is calculated based on the expected cash flows from the instruments discounted using the applicable discount rates of comparable instruments quoted in active markets.

*Loans Payable, Accounts Payable and Accrued Expenses and Subscriptions Payable.* The carrying amount of loans payable, accounts payable and accrued expenses and subscriptions payable approximates fair value due to the relatively short-term maturities of these financial instruments.

*Long-term Debt and Lease Liabilities.* The fair value of interest-bearing fixed rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as at reporting date. Discount rates used for Philippine peso-denominated loans range from 1.0% to 4.5% and 0.9% to 2.8% as at December 31, 2021 and 2020, respectively. The discount rates used for foreign currency-denominated loans range from 0.1% to 0.3% as at December 31, 2020. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

#### Derivative Financial Instruments

The Company's derivative financial instruments according to the type of financial risk being managed and the details of freestanding derivative financial instruments that are categorized into those accounted for as cash flow hedges and those that are not designated as accounting hedges are discussed below.

The Company enters into various foreign currency, interest rate and commodity derivative contracts to manage its exposure on foreign currency, interest rate and commodity price risks. The portfolio is a mixture of instruments including forwards, swaps and options.

#### Derivative Financial Instruments Accounted for as Cash Flow Hedges

The Company designated the following derivative financial instruments as cash flow hedges:

December 31, 2021	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency risk:				
Call spread swap:				
Notional amount	US\$ -	US\$ -	US\$190	US\$190
Average strike rate	-	-	P48.00 to P53.70	-
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$ -	US\$220	US\$30	US\$250
Average strike rate	-	P51.26 to P54.31	P50.64	-
Fixed interest rate	-	4.50% to 5.80%	3.60% to 4.01%	-

December 31, 2020	Maturity			Total
	1 Year or Less	> 1 Year - 2 Years	> 2 Years - 5 Years	
Foreign currency and interest rate risks:				
Cross currency swap:				
Notional amount	US\$ -	US\$ -	US\$250	US\$250
Average strike rate	-	-	P50.64 to P54.31	-
Fixed interest rate	-	-	3.60% to 5.80%	-

The following are the amounts relating to hedged items:

<b>December 31, 2021</b>	<b>Change in Fair Value Used for Measuring Hedge Ineffectiveness</b>	<b>Hedging Reserve</b>	<b>Cost of Hedging Reserve</b>
Foreign currency risk:			
US dollar-denominated borrowings	<b>(P570)</b>	<b>P -</b>	<b>(P319)</b>
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	<b>(747)</b>	<b>(730)</b>	<b>509</b>
<hr/>			
<b>December 31, 2020</b>	<b>Change in Fair Value Used for Measuring Hedge Ineffectiveness</b>	<b>Hedging Reserve</b>	<b>Cost of Hedging Reserve</b>
Foreign currency and interest rate risks:			
US dollar-denominated borrowings	P1,501	(P1,065)	P562

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 Separate 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 Separate Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Separate Statement of Income	Line Item in the Separate Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency risk: Call spread swaps	US\$190	P573	P -	Other noncurrent assets - net	P570	(P525)	(P570)	P100	Interest expense and other financing charges and loss (gain) on foreign exchange
Foreign currency and interest rate risks: Cross currency swap	250	11	718	Other noncurrent assets - net and Other noncurrent liabilities	747	(124)	(199)	-	Interest expense and other financing charges and loss (gain) on foreign exchange
<hr/>									
December 31, 2020	Notional Amount	Carrying Amount		Line Item in the Separate 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 Separate Statement of Income	Amount Reclassified from Cost of Hedging Reserve to the Separate Statement of Income	Line Item in the Separate Statement of Income Affected by the Reclassification
		Assets	Liabilities						
Foreign currency and interest rate risks: Cross currency swap	US\$250	P -	P1,875	Other noncurrent liabilities	(P1,501)	P258	P1,127	P -	Interest expense and other financing charges and loss (gain) on foreign exchange

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

The table below provides a reconciliation, by risk category, of the 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
Balance at beginning of year	(P1,065)	P562	(P803)	P381
Changes in fair value				
Foreign currency risk	570	(525)	-	-
Foreign currency risk and interest rate risks	747	(124)	(1,501)	258
Amount reclassified to profit or loss	(769)	100	1,127	-
Tax effect	(213)	177	112	(77)
Balance at end of year	(P730)	P190	(P1,065)	P562

#### Derivative Financial Instruments Not Designated as Hedges

The Company enters into certain derivatives as economic hedges of certain underlying exposures. These include freestanding derivatives which are not designated as accounting hedges. Changes in fair value of these instruments are accounted for directly in the separate statements of income. Details are as follows:

#### *Freestanding Derivatives*

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

#### *Currency Options*

The Company has outstanding currency options with an aggregate notional amount of US\$390 and US\$925, as at December 31, 2021 and 2020, respectively, and with various maturities in 2021 and 2022. The negative fair value of these currency options amounted to P1 and P523 as at December 31, 2021 and 2020, respectively.

#### *Commodity Swaps*

The Company has outstanding swap agreements covering the fuel oil and coal requirements of subsidiaries, with various maturities in 2021 and 2022. Under the agreement, payment is made either by the Company or its counterparty for the difference between the hedged fixed price and the relevant price index.

The outstanding notional quantity of fuel oil was 6,000 and 18,000 metric tons as at December 31, 2021 and 2020, respectively. The positive fair value of these swaps on fuel oil amounted to P10 and P30 as at December 31, 2021 and 2020, respectively.

The outstanding notional quantity of coal was 15,000 metric tons as at December 31, 2021. The positive fair value of these swaps on coal amounted to P12 as at December 31, 2021. The Company had no outstanding commodity swaps on the purchase of coal as at December 31, 2020.

The Company recognized marked-to-market gains (losses) from freestanding derivatives amounting to P65 and (P1,752) in 2021 and 2020, respectively.

### Fair Value Changes on Derivatives

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

	<b>2021</b>	2020
Balance at beginning of year	<b>(P2,398)</b>	(P1,889)
Net change in fair value of derivatives:		
Designated as accounting hedges	<b>1,196</b>	(1,243)
Not designated as accounting hedges	<b>65</b>	(1,752)
	<b>(1,137)</b>	(4,884)
Less fair value of settled instruments	<b>(1,001)</b>	(2,486)
Balance at end of year	<b>(P136)</b>	(P2,398)

### Fair Value Hierarchy

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

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

	<u>December 31, 2021</u>			<u>December 31, 2020</u>		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial Assets</b>						
Derivative assets	P -	P615	P615	P -	P69	P69
Financial assets at FVOCI	974	83,702	84,676	978	89,571	90,549
<b>Financial Liabilities</b>						
Derivative liabilities	-	751	751	-	2,467	2,467

The Company 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.

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### **30. Events After the Reporting Date**

*a. Payment of P6,683 Series A Fixed Rate Peso-denominated Bonds*

On March 1, 2022, the Company paid the P6,683 Series A fixed rate Peso-denominated bonds.

*b. Shelf-registration of P60,000 of Fixed Rate Peso-denominated Bonds and Issuance of P30,000 Bonds*

On March 4, 2022, the 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 rate of 5.2704% and 5.8434% per annum, due in 2027 and 2029, respectively.

The proceeds from the issuance of the bonds were used to refinance the short-term loan facility availed for the redemption of Subseries "2-C" and Subseries "2-E" Preferred Shares on September 21, 2021.

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### 31. Other Matters

#### a. Contingencies

The Company is a party to certain lawsuits or claims (mostly labor related cases) filed by third parties which are either pending decision by the courts or are subject to settlement agreements. The outcome of these lawsuits or claims cannot be presently determined. In the opinion of management and its legal counsel, the eventual liability from these lawsuits or claims, if any, will not have a material effect on the separate financial statements of the Company.

#### Deficiency Excise Tax/Excess Excise Tax Payments

In 2004, the Company was assessed excise taxes by the BIR on "San Mig Light" which at that time was one of its products. These assessments were contested by the Company but nonetheless made the corresponding payments. Consequently, the Company filed three (3) claims for refund for overpayments of excise taxes with the BIR which were then elevated to the Court of Tax Appeals (CTA) by way of petition for review. The details of the such claims for refunds are as follows:

- (a) first claim for refund of overpayments for the period from February 2, 2004 to November 30, 2005 was filed on January 31, 2005 with the CTA First Division docketed as CTA Case No. 7405;
- (b) second claim for refund of overpayments for the period of December 31, 2005 to July 31, 2007 was filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7708; and
- (c) third claim for refund of overpayments for the period of August 1, 2007 to September 30, 2007 filed on July 24, 2009 with the CTA Third Division docketed as CTA Case No. 7953.

In the meantime, effective October 1, 2007, the Company spun off its domestic beer business into a new company, SMB. SMB continued to pay the excise taxes on "San Mig Light" at the higher rate required by the BIR and in excess of what it believes to be the excise tax rate applicable to it.

*On the First Claim for Refund.* On October 18, 2011, the CTA (1st Division) rendered its joint decision in CTA Case Nos. 7052, 7053 and 7405, cancelling and setting aside the deficiency excise tax assessments against the Company, granting the latter's claim for refund and ordering the BIR Commissioner to refund or issue a tax credit certificate in its favor in the amount of P782, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from February 1, 2004 to November 30, 2005. After unsuccessfully having the decision reconsidered, the BIR represented by the Office of the Solicitor General elevated the cases to the Supreme Court by Petition for Review, which was docketed as G.R. No. 20573 and raffled to the Third Division. This case was subsequently consolidated with G.R. No. 205045.



*On the Second Claim for Refund.* On January 7, 2011, the CTA (3rd Division) under CTA Case No. 7708 rendered its decision in this case, granting the Company's petition for review on its claim for refund and ordering respondent Commissioner of Internal Revenue to refund or issue a tax credit certificate in favor of the Company in the amount of P926, representing erroneously, excessively and/or illegally collected and overpaid excise taxes on "San Mig Light" during the period from December 1, 2005 up to July 31, 2007. This decision was elevated by the BIR Commissioner to the CTA *En Banc* and the appeal was denied in the case docketed as CTA *En Banc* 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 Tax Credit Certificates No. 121-20-00012 and 121-20-00013 amounting to P782 and P926, respectively in favor of SMC. P62 out of P782 Tax Credit Certificate was partially applied to the Company's 2021 tax obligations. As at December 31, 2021, the P926 Tax Credit Certificate was not yet applied to any of the Company's tax obligations.

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

On August 10, 2020, the BIR issued Tax Credit Certificate No. 121-20-00010 amounting to P105 in favor of SMC. P61 and P44 was applied to the Company's tax obligations in 2021 and 2020, respectively.

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

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

- SMFB

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

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

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

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

The tax-free exchange between SMFB and the Company was confirmed by the BIR in its Certification No. SN: 010-2019 dated October 12, 2019. On October 31, 2019, the BIR issued the Electronic Certificate Authorizing Registration (eCAR) covering this transaction. The Exchange Shares were issued and registered in the name of SMFB on November 5, 2019 (Note 7).

- SMFB [formerly San Miguel Pure Foods Company Inc. (SMPFC)]

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

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

- SMB

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

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

- Iconic Beverages, Inc. (IBI)

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

- Brewery Properties Inc. (BPI)

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

- SMBIL

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

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

On December 21, 2009, the BOD of SMIL and SMHL approved the assignment of International IP Rights to SMHL in exchange for 286,363 SMHL common shares.

Also on the same date, the BOD of SMHL and SMBIL approved the assignment of International IP Rights to SMBIL in exchange for 2,863,636 SMBIL shares.

On January 29, 2010, SMB completed the acquisition of SMBIL shares from SMHL.

- Packaging Businesses

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

- c. *Effect of COVID-19*

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 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 in 2019 pre-pandemic level.

- d. *Commitments*

The outstanding purchase commitments of the Company amounted to P104 as at December 31, 2021.

Amount authorized but not yet disbursed for capital projects is approximately P1,259 as at December 31, 2021.

- e. *Foreign Exchange Rates*

The foreign exchange rates used in translating the US dollar monetary assets and liabilities to Philippine peso were closing rates of P51.00 and P48.02 in 2021 and 2020, respectively, for separate statements of financial position accounts; and average rates of P49.29 and P49.62 in 2021 and 2020, respectively, for income and expense accounts.

- f. Certain amounts in prior years have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported financial performance for any period.

- g. *Uncertainty Due to Ukraine-Russia Conflict*

The ongoing conflict between Russia and Ukraine, has no direct effect to the Company and its subsidiaries. Petron, the Fuel and Oil business of the 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 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.

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**32. Supplementary Information Required under RR No. 15-2010**

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